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12 July 1984

## Near East/South Asia Report

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12 July 1984

## NEAR EAST/SOUTH ASIA REPORT

### CONTENTS

#### ARAB AFRICA

##### MOROCCO

- Foreign Policy, Elections, Saharan Referendum Discussed  
(M'Hamed Boucetta Interview; AL-TADAMUN, No 59, 26 May 84).... 1

#### ARAB EAST/ISRAEL

##### ISRAEL

- Knesset Lists Announced, 16 New Factions Included  
(MA'ARIV, 1 Jun 84)..... 7
- Parties Sign Agreement on Proper Election Behavior  
(Aaron Sittner; THE JERUSALEM POST, 12 Jun 84)..... 10
- Military Computer Language, Artificial Intelligence Viewed  
(Avraham Peleg; MA'ARIV, 3 Jun 84)..... 11
- Financial Implications of Elections Discussed  
(Pinchas Levinson; THE ISRAEL ECONOMIST, No 40, May 84)..... 13
- First Real Losses for Banks Analyzed  
(Andre Lumbroso; THE ISRAEL ECONOMIST, No 40, May 84)..... 18
- Some Aspects of Dollarization Said Already Implemented  
(Andre Lumbroso; THE ISRAEL ECONOMIST, No 40, May 84)..... 20
- Legalities of West Bank Land Purchases Discussed  
(THE ISRAEL ECONOMIST, No 40, May 84)..... 22

|  |    |
|--|----|
| New Communications Corps Equipment Revealed<br>(Joshua Brilliant; THE JERUSALEM POST, 12 Jun 84).....                              | 23 |
| El 'Al's Commercial 767's Begin Regular Flights<br>(Joshua Brilliant; THE JERUSALEM POST, 12 Jun 84).....                          | 24 |
| Briefs   |    |
| Increased Norwegian Oil Supply   | 25 |
| Military Wages Surpass Civilian  | 25 |
| Criticism of Administration  | 26 |
| Jordan Rift Financial Distress   | 26 |
| SAUDI ARABIA   |    |
| King's Meeting With Islamic University Students Reported<br>( 'Amr Hafiz, Mahir 'Abbas; AL-MAJALLAH, No 222,<br>12-18 May 84)..... | 27 |
| Ramifications of Iranian Plane Incident Explored<br>(Fu'ad Matar; AL-TADAMUN, No 62, 16 Jun 84).....                               | 37 |
| PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN  |    |
| Official Details al-Mukalla Port Activity Increase<br>(14 UKTUBAR, 26 Apr 84).....   | 43 |
| French Sponsored Solar Energy Project Elucidated<br>(14 UKTUBAR, 27 Apr 84).....   | 45 |
| Briefs   |    |
| Fish Production Plan   | 50 |
| SOUTH ASIA   |    |
| IRAN   |    |
| Visiting Sierra Leone Official Leaves Tehran<br>(Abdulai Conteh Interview; KEYHAN, 14 Jun 84).....                                 | 51 |
| Sierra Leone, Iran Issue Joint Communique<br>(KEYHAN, 14 Jun 84).....  | 53 |
| Roads, Docks, Airports Construction, Expansion Announced<br>(KEYHAN, 3 Jun 84).....  | 55 |

|  |    |
|--|----|
| Conditions for Prisoners Amnesty Announced<br>(KEYHAN, 4 Jun 84).....                        | 57 |
| Pilgrimage To Be Used for Prisoners Rehabilitation<br>(KAYHAN INTERNATIONAL, 19 Jun 84)..... | 60 |
| Various Projects Implemented in Fars<br>(KAYHAN INTERNATIONAL, 19 Jun 84).....               | 61 |
| Briefs   |    |
| Electricity for Lorestan Villages  | 62 |
| Central Province Development Projects  | 62 |
| Ahvaz Irrigation Projects Completed  | 62 |
| Billions for Sistan-Baluchestan  | 62 |

#### PAKISTAN

|  |    |
|--|----|
| Finance Minister's Speech on 1984-1985 Budget<br>(BUSINESS RECORDER, 15 Jun 84)..... | 63 |
| Budget at a Glance<br>(BUSINESS RECORDER, 15 Jun 84).....                            | 72 |
| Budget Said Widely Hailed<br>(BUSINESS RECORDER, 15 Jun 84).....                     | 74 |
| RECORDER Comments on Budget<br>(Editorial; BUSINESS RECORDER, 15 Jun 84).....        | 77 |
| Text of Statement on Industrial Policy<br>(BUSINESS RECORDER, 15, 16 Jun 84).....    | 79 |
| Minister Defends Increase in Taxes<br>(BUSINESS RECORDER, 16 Jun 84).....            | 90 |
| Briefs   |    |
| 5-Day Work Week  | 92 |
| Provinces Adopt 5-Day Week   | 92 |

FOREIGN POLICY, ELECTIONS, SAHARAN REFERENDUM DISCUSSED

London AL-TADAMUN in Arabic No 59, 26 May 84 pp 33-34

[Interview with M'Hamed Boucetta, leader of Morocco's Istiqlal Party, by Rachid Khishanah: "We won't Accept Our Relations with America Being at the Expense of Our Causes and Our Independence"; in Tunis, date not specified]

[Text] There is no doubt that M'Hamed Boucetta, leader of the Moroccan Istiqlal Party, is one of the few people who are "masters" of the Western Sahara file, by virtue of his occupying the post of Morocco's foreign minister during the most critical stages of the fighting from which the Arab Magrheb is still suffering. In addition, he is one of the doyens of Moroccan politics. He accompanied the leader Allal El Fassi during the stage of combat against French imperialism. After Morocco's independence, he entered all electoral and political battles from his position of leadership in the deepest rooted Moroccan party.

In his interview here with AL-TADAMUN, Boucetta analyzes Morocco's positions on solutions which have been proposed to end the Saharan war and on military alliances with Western nations. He also defines his party's positions on the upcoming parliamentary elections and on joining Karim Lamrani's coalition government. The following are AL-TADAMUN's questions and M'Hamed Boucetta's answers.

[Question] At the last meeting held by the central committee of the Istiqlal Party in mid-April, you confirmed that the party gives precedence in its work to economic problems. What are the motives for concentrating on these problems exactly?

[Answer] They are due to the phase Morocco is passing through, characterized in recent years, last year even more clearly, by the existence of economic difficulties arising from causes that do not need enumeration, since most nations, if not all, have suffered because of the depressed world economic situation and the increase in prices of certain primary products essential for industrialization and even for daily life.

In addition, in regard to Morocco, I mention the drought which has covered the entire region and the basic, responsible measures, whether defensive or internal, we had to take under the circumstances. Concern for the economic sector became a necessity, so that the purchasing power of the Moroccan people might remain unweakened, especially among the vulnerable classes and groups--workers, farmers, small merchants and others. Therefore we had to review our economic program.

Boucetta paused a moment as though he were choosing his words and added:

I am not talking about an in-depth review of our economic program, of its basic choices, but a review of certain aspects of it. We also had to coordinate work with existing organizations either within the party or parallel to it, like the labor federation, so we might carry out integrated activity. For these reasons there was the focus which I mentioned at the last meeting of the central committee.

[Question] At the previously-mentioned central committee meeting, before a definite date for the elections had been announced, you said that it was necessary to take advantage of the delay in setting a date for the elections in order to complete the preparatory stages and cleanse the atmosphere by eliminating injustices and putting an end to the conduct of certain officials. Do you think all this has actually been accomplished?

[Answer] First, there is our definite desire that Morocco not remain in a vacuum with respect to representative institutions. For us this has been a basic demand, even when we entered the government in 1974. There were elections for local councils and for parliament in 1974, and we stated our view during them. Ever since, there has been unacceptable intervention on the part of certain organs, especially regional or local administrative bodies. We reconfirm our desire once again for the existence of representative institutions. As you said, a definite date has been set for the legislative elections. They will be preceded by elections by profession in chambers of agriculture, commerce and labor. Indeed, we want to stand by what the king confirmed in a speech on 5 November last year. He discussed the elections and said that they must be honest and free. There should be no intervention by the administrative apparatus so that this integrity and freedom not be corrupted and consequently, so that the structure of these institutions not be tarnished and deprived of their authenticity. We are striving for this. Certain legislative texts are now under study. The Istiqlal Party has introduced some of them, and we have proposed amendments we find useful in certain others in order to improve the structure of councils. However, our demand remains urgent for putting an end to interventions by the administration when the sequence of election activities begins--from the drafting of lists to the nomination of candidates, to making it easy for voters to obtain ballots. I am not saying everything has now become perfect. However, with the unfolding of these elections, we will see if the principle of nonintervention will actually be respected by the administrative apparatus or not. Will these elections be honest and representative and be truly authentic as the king wishes and as we also wish, or not? If they lose their authenticity,

that will be something undesirable and unwholesome for the future of democracy and the popular bases, which must have their say in monitoring the executive apparatus and passing judgment on its choices.

[Question] U.S. Army Chief of Staff General John Vesey visited Morocco on 12 April. It was said that this visit was the first of its kind made by an American military official of such high rank to Morocco. There have been many comments about the development of military relations between the United States and Morocco, and it is thought to be a result of the fighting in the Sahara. How does the Istiqlal Party view the relations which might exist with the United States and Western nations in general?

[Answer] This visit is not the first of its kind, even with respect to the senior military rank. There have been similar visits at this level in the last few years, and there had also been such visits many years previously. Civilians responsible for military affairs have visited Morocco, including Defense Secretary Caspar Weinberger. Also, senior Moroccan military cadres have visited the United States.

We must be completely clear in this matter. As a Moroccan citizen first, as an official in a political organization second, and as one who has exercised certain responsibilities in the nation in recent years third, I say that we want our relation with various nations, including the United States, to be one of friendship first. Then as far as we are concerned we want a relationship providing us that which enables us to strengthen our independence and defend our territorial integrity quite clearly. We have seen that our country has been the target of attacks and aggression with extremely advanced weapons coming from the eastern sector of the world. In order to defend ourselves, we must find weapons capable of facing this advanced weaponry. This has been our basic motive in turning to the side which has these weapons, to acquire them and defend ourselves. Naturally this does not mean that through our contact with France or the United States to acquire weapons, our independence will first be violated, in any way whatever. It is something we cling to tenaciously. We have made every sacrifice for our independence and are ready to make more for its sake against anyone who may conceive of violating it. Furthermore, through our commitment to our fundamental causes, whether Arab or African, or problems concerning the area in which we live, our defense of the Palestinian cause, for example, does not change, nor matter what America's positions on them. As long as America's positions do not acknowledge the defense of truth and the interests of a people whose rights have been usurped, our position with respect to America will be in total conflict with its views on this problem. We will declare this and take all the measures we should take. This is an obvious example which illustrates our relationship with the United States. Will our relationship with this nation affect our commitments or reduce them or the intensity of our efforts on their behalf?

No, and again, definitely no. We will ward off from the region in which we live any foreign intervention or attempted internationalization as long as we wish. However, if others impose this, it would be a heavy burden on us. However, we are not heading for this at all. We have not

asked the United States to send its army to the region or that military bases be built in our country to defend us. There is nothing more to it than this: We have contacts with the United States, and these contacts are of a military and defense nature. If we take the question of training, for example, we find that obtaining advanced weapons from a country means that we have to get training in the use of these weapons. That quite clearly is the meaning of these visits you mentioned in your question.

[Question] The Sahara wound is still making Greater Morocco and Morocco, in particular, bleed. What idea does the Istiqlal Party have for a way out to end this tragedy which has continued since 1975?

[Answer] I quite clearly and frankly say that our thinking is based on the fact that the Moroccan people in this matter are unjustly treated. They are ill-treated by their close kinsmen. However, in order to take steps forward, we must go backward, even if permitting certain developments. We have consented, even though they violate a basic principle of ours, to Algeria's demands in the Sahara problem. I do not want to go back decades to past history, but I will go back only to the period we have been living in recent history. Now, Algeria has stated clearly that it cannot defend a basic principle, that of self-determination, at a distance of thousands of kilometers from its borders. It does not defend this principle within its borders. Therefore, it defends the right of self-determination of the inhabitants of the Sahara and feels that they must truly express their will. This violates a basic principle with respect to us, because we say, 'Why have a referendum for the inhabitants of one inalienable part of our land, the Sahara, and not for those of other parts?' Why don't we raise the same questions among the inhabitants of Fes, Marrakech or Tangier and ask them if they are Moroccan or not? We ask that question of the inhabitants of El Aaiun, Semara and Dakhla. We say to them, 'Tell us, are you Moroccan or not?' In fact, this has violated our sovereignty, not only from an emotional point of view, but also from a basic, national point of view. In other words, it has violated the concept of devotion to a nationality. Nevertheless, in order not to complicate matters because of this fundamental demand made by Algeria, we came to Nairobi. Through the king himself, with all the grandeur and worthiness required, we said, 'Yes.' We announced that we were ready to hold a referendum for the inhabitants of this region in order to put an end to these problems.

This position aims first at satisfying this demand, because in fact this demand has a dynamic force in the world, and it is acceptable to people. Second, it aims at responding to Algeria's wish, because Algerian officials have a responsibility to public opinion by virtue of the position they have taken. They also have commitments, even if normal, toward several other nations, after announcing that this referendum would bring a solution. They defended the principle of self-determination. If this solution were implemented, and it produced a definite result, and inhabitants of the Sahara said they wanted independence, they would have it. If they said they wanted incorporation in Morocco, they would have that too, and the problem would be settled.

However, it was very unfortunate. This principle was accepted and all conditions guaranteeing its success were made. I lived through this in Nairobi. We provided all the conditions for conducting a real, precise and honest referendum, to such an extent that at one time we even reached agreement on the size of the box in which the election envelop would be placed. All this is recorded in writing and still exists. We accepted all these conditions, but we soon saw pitfalls in the aftermath. Why? Naturally we do not know. We saw this and we declared it at our recent meetings. It is a factor impeding our development in the region as a whole. It is a fundamental matter, in facing economic organizations or their equivalent, in our own building, as well as in emerging from backwardness completely. The Sahara problem remains a conspicuous obstacle, a reality in the way of our progress. We raised our point of view at the recent meeting. We said that we are striving and will continue to strive constantly to cut through the fog, until the referendum is held in the shortest possible time. We are willing to accept its results. All other interpretations which are being attributed to us are not true. We hope the problem will be viewed from another angle, with our urgent desire for its settlement.

[Question] Eyes are now turning to the upcoming OAU conference. It seems that an official invitation has been sent to the Saharan Republic to attend the conference.

[Answer] No. That is not true. I do not believe the POLISARIO was invited, because, as you know, it is not even an organization recognized by the OAU. We want to go beyond this. If the OAU or its committee wants to consult anyone it wishes and address anyone it wishes, let it do so. What we ask is that it keep its promise and come to conduct the referendum. We are totally prepared to help in conducting this referendum openly, in the presence of the OAU, and UN, civilian observers, and even military observers if they wish. We have no objection to this. This is the correct way. The summit meetings and commentaries on them in one form or another are no longer beneficial and have become of minor importance.

[Question] However, a while ago a prominent POLISARIO leader said that a secret meeting was held in 1981 between Moroccan and Saharan delegations in Bamako, the capital of Mali. Did you actually conduct negotiations with the POLISARIO?

[Answer] There are many statements. If we wanted to respond to statements coming from this side or that, we would enter an interminable maze. I am not saying that at meetings held in international organizations or at certain other occasions certain people, from the POLISARIO or elsewhere, haven't considered that they have seen a Moroccan official of one kind or another or something of the sort. However, what is important is that we know that if the POLISARIO wished to set itself up as a state, Morocco would never accept that, because first of all, the POLISARIO does not represent the population in its entirety. I would even say that it

represents only a very small minority. If it wishes to show that the population shares its opinion, it has every opportunity to prove this. We have only to ask the inhabitants their opinion. This goes back to the starting point, in other words, the necessity of holding a referendum in order to make sure that each organization and group is represented.

[Question] The government of Karim Lamrani, which the Istiqlal Party has joined, is a coalition government and a transition government. How do you assess your participation as a party in this government? What is the range of development of this assortment of ministers in the coming period?

[Answer] Our participation has become determined now by a precise date, the date of the elections. Actually, when this government was formed in November of last year, there were two questions. The first was to hold elections in an atmosphere of integrity, as I mentioned in response to a previous question. Consequently, our participation in the government is to watch over the integrity of these elections. The second was to strive to remain united in the executive apparatus until the referendum in the Sahara took place. However, events occurred in the meantime. One was that the referendum did not take place for reasons beyond our control, as I explained earlier. The Islamic summit conference was convened in Morocco. It was also decided to postpone the OAU conference until an unspecified date. I say this because the committee which will conduct the referendum in the Sahara originates from the African summit conference. Now in any case the date of the elections has been set. On this basis we are participating in the government, first to hold these elections. Then, after that, a government will be formed which will undoubtedly reflect the parties' strength in the elections. At that point we will certainly look at the economic and social program of this government. Now we have to confront economic and social conditions and prepare the elections and the referendum in the period which remains before the elections.

7811

CSO: 4504/299

KNESSET LISTS ANNOUNCED, 16 NEW FACTIONS INCLUDED

Tel Aviv MA'ARIV in Hebrew 1 Jun 84 pp 1, 2

[Article: "Twenty-Six Lists Seeking Election to the 11th Knesset; 16 Are New"]

[Text] All ten factions in the Knesset have submitted their lists of candidates to the Central Elections Committee in the Knesset building in Jerusalem by the designated time, midnight yesterday, with the last two being the NRP and the Agudat Yisrael.

MK Avraham Melamed announced on behalf of the NRP the nullification of the announcement of a separate faction called Geshet by the Young Guard -- Minister Zevulun Hammer and MK Yehuda Ben-Meir.

Sixteen new lists have been submitted, including Shass -- religious Sephardis -- and also lists from various ethnic groups such as the Georgians and the Indian immigrants. The list of the Association of Yemenis, headed by Shalom Mantzura, was invalidated since the list of signatures of supporters was 70 short of the required 2,500. Kach did not forfeit as in every election campaign, its deposit that this time amounted to IS500,000. The Shalhevet list, headed by Avraham Badanjo, was also invalidated since only 250 signatures of supporters were submitted instead of 2500. Additional lists include the National Organization for the Protection of the Tenant, the center of which is in Haifa, and the Hasams list for the abrogation of income tax that is a one-person list of Ya'akov Berger.

[Text omitted] two youths, one of whom wears a yarmulka. There are 18 candidates on the list. There are 30 notebooks with 3,400 signatures and 16 statements of acceptance by the candidates. Two more will be submitted by 10 June.

The judge signs the page that verifies the receipt of the list: "Thank you, I wish you success!"

0916. The Kach list, Barukh Ben-Shlomo (Merzel), a stocky youth with a beard, glasses, yarmulka, and fringes. He is wearing a shirt with vertical pink and white stripes and is perspiring slightly. He brings an attache case containing numbered booklets of signatures of supporters. There are 20 candidates, the first of whom is Rabbi Meir Kahane. There is a bank check.

In the meantime, people enter the room of the assistant teller of the Knesset, Aharon Shevah, with the television crew. A five-person team counts the invited guests who were brought by Victor Tayar.

Tayar, as well as the first ten, has been here since the previous evening. For the veterans there is no need to hurry. The law states that the identification letters of the current factions are reserved for them for the upcoming elections to the Knesset. However, for the new ones, it was decided that for those who come to the committee, precedence would be given on a first come, first served basis. Tayar requests the letters "kaf, nun." There is no longer a Telem faction, headed by Moshe Dayan, of blessed memory, which had these letters when it ran for the current Knesset. Two members of Knesset who were elected from this faction are running separately. Yigael Hurwitz requests the letters "yod, shin" (the letters of the Democratic Movement for Change in the Ninth Knesset), and Mordekhai Ben-Porat requests the letters "zayin, he."

0937. The assistant teller returns with the money. One of his assistants helps him carry it. "A check has shown that the sum is complete," he declares. Tayar leaves: "The last time I brought money in a basket. Now I can buy 1 kilo of meat in the market with it."

Afternoon. People are moving to the Knesset chamber. It is larger, but the light is artificial, and the air is coming only from the air conditioner. Television is on strike, and only the cameras of the press photographers are clicking. People are beginning to arrive. Members of Knesset Wilner and Tubi of the Democratic Front for Peace and Equality. Minister Uzan, Deputy Minister Rubin, Iyov Kera, Rabbi Ben-Tziyon of Bene Beraq, 'Amram Harosh of Jerusalem, Vicki Shiran of Tel Aviv. The letters requested are "nun, yod." "We will be satisfied with 60 seats," declares Uzan who has the 120th place on the list.

The Ratz [Citizens Rights] people arrive -- Mordekhai (Morele) Bar-On, Dadi Tzucker, Beni Temkin of Sheli, Bat-'Ami Yaffa, and the Knesset faction secretary, Mikhal Refa'eli. MK Shulamit Aloni is absent, contrary to her custom in previous years. She is lecturing to women on the subject of rape.

The Likud: Ronni Milo, Moshe Katzav, Ehud Olmert, Refa'el Hatzvi for the Liberals, together with the faction secretary, Yardena Meller. "We hope that most of the list will be elected," says Milo. Smiles. Moshe Katzav: "There are 11 candidates under the age of 40 in the first 50 places." Justice Bach: "I estimated even more 20 years ago." The requested letters are "mem, heth, lamed."

The Alignment: Shlomo Talmon, Yehuda Hasha'i, Hayim Bar-Lev, Aharon Nahmias, Rena Dotan, Yitzhaq Artzi (Independent Liberals), and Hanan Erez. There are 120 candidates, the last one being former President Efrayim Katzir. The requested letters are "alef, mem, taw."

The National Religious Woman also enters. It is already 2120. The rumors are that Dr Burg was on the telephone until the last minute trying to persuade. Rachel Duvdevani says: "It wasn't serious." Heading the list are Sara Stern-Katan, Duvdevani, Miriam Rechtman, Rebbetzin Neriya, Nehama Basok, Dena Han, and other well-known names from the NRP orientation.

Speaker of the Knesset Menahem Savidor does not submit a list. Several others who took forms also do not come. The committee is already into its usual routine. Booklets, lists, smiles, wishes for success, and calling out the preferred letters. The ceremony ends. Now the work must begin. Collecting the checks, checking the signatures, allocating the identification letters. It is already a duller story.

5830

CSO: 4423/60

## PARTIES SIGN AGREEMENT ON PROPER ELECTION BEHAVIOR

Jerusalem THE JERUSALEM POST in English 12 Jun 84 p 1

[Article by Aaron Sittner]

[Text]

Punching, spitting, throwing rocks or rotten tomatoes and any other kind of "physical violence, threats of violence or incitement to violence" are among the taboos agreed upon for the coming Knesset elections by the Likud and Alignment.

With television cameras whirring and Central Election Committee chairman Justice Gavriel Bach smilingly looking on, four representatives of the two large parties yesterday signed an agreement in the Knesset that included the following:

- No violence, threats or incitement to violence.
- Neither party will accuse the other of violating the election laws without having proof of the violation, and neither party will permit provocative acts that could lead to suspicion of such violations.
- Slogans and other remarks referring to a person's national origin, communal identification (such as Ashkenazi or Sephardi), or religious

faith may not be used, nor may disparaging labels or epithets be employed in the course of the campaign.

- Catcalls are permitted at rivals' political gatherings, but disorders at such meetings may not be organized beforehand.

- Caricatures "appearing to be degrading" must not be printed or circulated.

- A rival candidate may not be described by naming traits that are irrelevant to his ability to fulfill his job in politics. Nor may such references be made regarding the candidate's family.

- A rival candidate's picture may not be shown as part of a photomontage.

The National Religious Party announced yesterday afternoon that it, too, joins the Alignment-Likud accord, which was signed by Mordechai Gur and Moshe Shahal for the Alignment, and by Avraham Sharir and Ronnie Milo for the Likud.

CSO: 4400/273

MILITARY COMPUTER LANGUAGE, ARTIFICIAL INTELLIGENCE VIEWED

Tel Aviv MA'ARIV in Hebrew 3 Jun 84 p 14

[Article by Avraham Peleg: "Studies of Military Computer Language and Artificial Intelligence"]

[Text] A computer language that also has a military application is being studied at Tel Aviv University by a nucleus of experts in the Ashkenazi Computer Science Institute. The experts are involved in the development of the Ada computer language that was developed in the United States and is serving the entire defense establishment there. The language was adopted by the American Department of Defense as the exclusive one for the development of computerized systems for the American armed forces.

Within the institute additional projects are being organized such as the use of a computer for the production of Braille books for the blind in all languages; the development of a personal computer for a student to use in order to progress according to his personal ability; and programs in the field of artificial intelligence.

A report on these studies and others was made on the occasion of the annual meeting of the Board of Trustees of Tel Aviv University that took place from 23 May to 30 May. One of the noteworthy studies reported on was the development of a substance for the treatment of eye infections and burns. Dr Efrat Kessler and her associates have developed a special substance that acts specifically and effectively against an enzyme that destroys the cornea. Bacteria that penetrate the eye as a result of burns or a wound give off an enzyme into the cornea that is likely to cause a loss of sight if the process is not arrested. Dr Kessler and her associates have developed a substance that prevents the destruction caused by the enzyme.

The substance was developed in cooperation with Dr Shmaryahu Blumberg, a biochemist in the Weizmann Institute, who prepared the compound and Dr Avraham Shpirer. The substance was found to be effective in the cornea of test animals and without side effects. The substance has not been tried on the human eye, however it has been reported that it has aroused interest in the community of researchers throughout the world. The reason for this is that it can be used not only for wounds and eye infections but also in cases of infections caused by severe burns.

For this work Dr Kessler was awarded the Richard Stein Research Prize on behalf of the Goldshlager Eye Institute of the university and the Tel Hashomer Hospital. Other recipients of the Stein Prize were Dr Yitzhaq Ben-Hanan, the chief of the Eye Research Laboratory in the Eye Institute, for the development and application of a new theory for the treatment of burns by suppressing the immunity system and Dr Fabian Avraham, chief of the Clinical-Electrophysiological Laboratory, for the development of a system for the electrical detection of diseases of the retina.

The Leon Alcalay Chair for Pediatric Immunology was established during the annual meeting of the Board of Trustees. The studies that are expected to be conducted within this framework will permit a reduction in infant mortality due to infectious diseases.

During the meeting of the Board of Trustees honorary doctorate degrees were conferred on 11 persons -- the Nobel prize laureate, Prof Julius Axelrod, Prof Moshe Rachmilewitz, Dr Irene Helms, Prof Hugh Lloyd Jones, and Mr Cal Cowens. Honorary fellow of the university degrees were conferred on Mr 'Oved Ben-Ami, Mr Herbert Cohen, Mr Richard Sonnenberg, Lady Brilston-Forman, and Mr Emanuel Resin. The President's Award was presented to Mr Shlomo Gur, the designer of the "Wall and Tower" settlement model. A \$1 million scholarship fund for doctorate aspirants was also established from a contribution by businessman Yosef Buchman. The fund will bear his name.

5830

CSO: 4423/60

## FINANCIAL IMPLICATIONS OF ELECTIONS DISCUSSED

Jerusalem THE ISRAEL ECONOMIST in English No 40, May 84 pp 56-58

[Article by Pinchas Levinson]

[Text] The public's financial portfolio now totals IS1.25 trillion (\$7.5 billion) 61% more than on January 1; subtracting the 51% rise in prices over the same period, we end up with a real gain of 6-7%. As the following table indicates, the investing public moved its newly acquired cash into high-paying, short-term PAKAM and TAPAS accounts.

Much of this resulted from the increase in the value of shares since the beginning of the year. Bank shares in the hands of the public grew a real 6.5% in value in the year's first 100 days to stand at IS460 billion. If bank shares are included, the public's financial portfolio totalled \$10.3 billion.

### The Equity Market

The overall share market grew 11.78% in value from the beginning of the year until April 25 as the accompanying table shows. But the chart below shows that April saw a real fall in share value.

Much of the fall in April was due to the dismal income results reported for most firms during the 1983. According to a recent calculation by the research firm Securoteam, the cumulative adjusted loss for all Tel Aviv Stock Exchange firms was \$72.4 million. The cumulative unadjusted (for inflation) profits totalled \$1.6 billion.

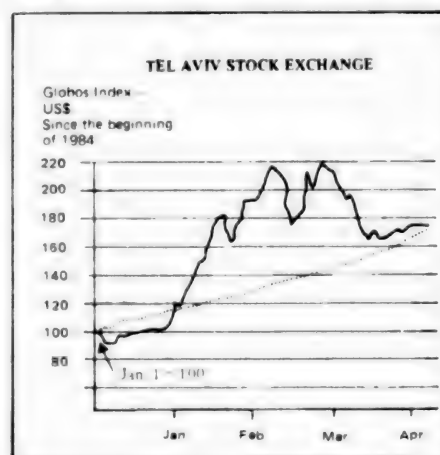
While nearly half the firms reported adjusted losses, less than 10% (24 firms) reported unadjusted losses. Last year investment companies turned in the most profitable sector performance, while services, particularly the Electric Company performed the worst.

A survey of 47 of the 104 TASE-listed industrials shows a broadly-based growth of 8% in sales for the first half of last year. Profits presented a different picture. Four companies, Elbit, Elron,

the Dead Sea Works and Dashanim were responsible for IS1.14 billion in profits. Excluding them, the rest of the survey respondents reported a half year loss of \$11 million, versus a \$2.7 million loss in the first half year of 1982.

### Bank of Israel less active

With "agreement" bank shares holding their own in price (at about 60% of total TASE capitalization) the Bank of Israel accounted for only 6.2% of all TASE transactions in March, the lowest value since October. Each of the other participants reached peaks in their share of TASE activities for the period since October. At April's end, TASE daily volume was unusually low. It seems the public believes, for the meantime, that the government will honor the bank share



The Globos index represents a market weighted valuation of 57 selected "free" market stocks

agreement and everyone is waiting for the elections to be held before thinking about

rejoining the fray.

Provident funds, formerly avid buyers of "agreement" bank shares, have also cut back new purchases, having reached the 10% shareholding limit set by the government. They were initially encouraged by the Treasury to purchase the shares in order to prop up the prices.

With their discretionary monies, the provident funds are again buying linked guaranteed 7.5% instruments of mortgage banks. They prefer index-linked bonds, particularly now that the Treasury has refused to assure them of compensation for any dollar-index difference upon maturity.

Just as discouraging has been the lack of new issues in the year's first quarter, with only four valued at \$5.8 million, compared to last year's 22, valued at \$59 million.

One reason for the lack of new issuance may have been greater public awareness of the dangers in buying newly issued shares. It seems that companies try to get the most out of an issue by artificially jacking up the price of the share. This is done by "playing" with the balance sheet so as to make the company seem more profitable than it is. A recent Euroteam study revealed that 77% of the companies that began trading on the TASE between January 1, 1982 and May 31, 1983 saw a real decline in their profits in the first period after listing. On average, their profits fell 64%. These percentages compare unfavorably with the veteran company results of 44% and 34%, respectively.

### Mutual funds

As for mutual funds, the degree of concentration of the industry in the hands of Bank Leumi, and to a lesser extent Bank Hapoalim and Bank Discount, has continued to grow. Private brokers and portfolio managers are in charge of 37 out of the 109 existing funds, at first glance, a large proportion. In terms of value, however, these 37 funds have only 5.9% of the assets of the industry in a mid-April evaluation by the Meitav financial consultancy firm.

Justification for this move exists in results from recent research by the financial daily *Yom Yom*, which demonstrated that for every time period from one month to three years, funds managed by Leumi Piy performed the best of any group. Negative real results were experienced on average in the period ending March 31, 1984 by Leumi Piy fund owners holding their assets for six to 12 months.

In the year ending 31.3.84, four of the top six performers were managed by Leumi Piy and five of the six specialized in foreign currency. The best performing

fund was ANVAR, which fit both of these classifications and returned a real yield of 11.5%.

Though banks have been benefitting from their mutual fund business, they are less satisfied with the structure of the TASE commissions. With each security transaction costing the executing bank between \$5 and \$10, a minimum break-even transaction would be IS 90,000 (of which the 1% commission would be \$5). Thus banks are pushing for a minimum transaction value of IS50,000. The banks are angry with brokers for referring their small clients to the banks while they themselves require a minimum level of client investment of \$5-30,000. Brokers account for some 10% to 15% of TASE transactions.

### Interest rates

While the Bank of Israel has still not issued short-term Treasury bills, in April it did begin selling long-term Gilboa series linked bonds through an auction process of minimum acceptable bids. Selling prices have averaged only about 92%, and sales only about 40%, of the hoped-for total. For the individual, the Gilboa bonds compare unfavorably as they yield only about half of what the "agreement" bank shares pay and their 10-year maturity is over twice the required period of the bank shares. For institutions, these bonds can be purchased at even lower prices through secondary market arrangements.

Much of the drying up of activity on the TASE comes from decreased volume in the secondary market for bonds. In March, 33% of the Stock Exchange volume (\$82 million) was in bonds, versus 44% in February (\$112 million). The Bank of Israel did manage to sell IS4.5 billion worth of bonds in March versus IS3 billion in February and a purchase of IS13 billion in January. Provident funds purchased IS20 billion of bonds in March versus IS9 billion in February.

### Maturation

Of the \$279 million in government bonds due to expire in May, \$104 million is held by provident and pension funds and insurance companies who are expected to "roll over" their investments; \$106 million are mandatorily held by the banks (and thus will be rolled over); and the remaining \$69 million is held by the public, which has been choosing foreign currency as the preferred investment of late.

The Treasury wants to induce the public to tie up its discretionary funds in long-term investments. This would avoid the periodic frenzy over how to "roll over" maturing bonds. In the second

| STOCK MARKET VALUATION BY SECTOR        |           |           |          |
|---|-----------|-----------|----------|
| In millions of \$                       |           |           |          |
| Sector                                  | 27.12.83  | 25.4.84   | % Change |
| Commercial Banks                        | 3,096,078 | 3,874,038 | 25.13    |
| Mortgage Banks                          | 265,397   | 176,672   | -33.43   |
| Financial Institutions                  | 104,894   | 221,719   | 13.76    |
| Insurance Firms                         | 107,178   | 77,326    | -27.85   |
| Commercial Services                     | 133,045   | 166,776   | 26.10    |
| Real Estate and<br>Property Development | 733,759   | 229,706   | - 1.73   |
| Industrial Companies                    | 819,374   | 772,076   | - 5.77   |
| Investment Companies                    | 475,284   | 431,026   | - 9.61   |
| Oil Search Firms                        | 42,375    | 53,564    | 26.33    |
| Total                                   | 5,367,390 | 5,999,871 | 11.78    |

quarter of 1984, \$1.15 billion in bonds mature. This is why it gave the go-ahead to banks to improve terms. Interest-bearing shekel investments may now pay up to \$250 per year in interest (previously 170%) before the depositors are liable for tax.

New savings plans are continually being devised. The Knesset Finance Committee recently approved a dollar-linked savings plan of five years duration: savers can withdraw after three years and after each additional six months, and the interest will be fixed and exempt from tax.

For a previous dollar-linked program, deposits in the first week of April were IS2 billion versus IS800 million in the first week of March and IS400 million in the first weeks of February and January.

The banks have a similar interest in tying up their clients' funds and have been offering generous conditions to participate in these programs. Clients who transfer foreign currency into these schemes are receiving the representative exchange rate, no commission and additions to the interest percentage that they receive. The Knesset has given income tax exemptions to dollar-linked Matmid plans having two or more years' maturity. At Bank Hapoalim, savers receive 10% interest during the first six months and 9 5/8 for the remainder of the period. First International is giving clients who deposit shekels in this program a 5% bonus.

But just as fast as the programs are set up, problems are found. Under the Matmid scheme, two weeks of indexation are lost to the saver when he withdraws his deposit. Only after six years is the full last month's linkage awarded.

### Checking accounts: to bear interest?

The big question is short term deposits remained whether the banks would pay interest on checking accounts. For the limited Bank Mizrahi program already underway, only 15% of its customers met the conditions of a minimum IS6,000 balance and maximum six transactions. Though the decisions are still under discussion as of this writing, it appears that part of the liquidity fines the banks paid last year will be refunded during the coming year, as the banks have demanded, though the sums will probably be unlinked. In return, banks are expected to finally accede to the Treasury's demand that they begin paying interest on checking accounts.

The banks calculate that paying interest on checking accounts to the tune of 5% per month would cost them \$150 million in 1984, half their expected profit. Currently banks must transfer 45% of the checking account balance to the Bank of Israel. On 29% no interest is paid and on the other 25%, 11% per month interest is paid.

As for PAKAM and TAPAS accounts, with the April index expected to be near a record 20% and the banks still suffering from a liquidity crisis, PAKAM and TAPAS rates were high during the last week of April. Bank Mizrahi was paying an annualized rate of 200% on its overnight TAPAS accounts to large depositors and 155-160% to chosen customers and bank employees. A lower expected May index contributed to a subsequent fall in these short term rates. Despite the continued favorable terms offered to those who transfer foreign currencies into PATAM and TAPAS accounts, most people are now

putting their excess cash into foreign currencies until the election.

On the debt side, banks in May lowered the interest they charged customers by two percentage points as the Bank of Israel lowered the rates it charged banks by three points. For most customers, an overdraft of up to IS16,000 would be charged at the rate of 13% per month and amounts over that, at 17.5%.

"Gray market" lending from non-banking institutions) has picked up recently as banks cut back on their lending to stem their liquidity gaps. Official "white" (i.e., bank) loans are for 30 to 60 day periods only and certainly no longer than 90 days. Among large borrowers are industrialists, importers and builders.

### Real estate

The real estate market has perked up because of election economics. New mortgage terms and generally easier construction credit have meant an upsurge in activity and prices. As of April 1, mortgage assistance rates were raised for new immigrants and young families by up to 80%. The Housing Ministry introduced a new principle giving bigger loans to those who buy smaller flats and to those eligible who have lacked permanent housing for a longer time.

Not all the new mortgage changes have attracted interest. The new 20-year linked mortgage with 6.2% interest introduced in April has not attracted many home buyers, principally because of the fear of linked payments for 20 years.

Immigration Minister Uzan has proposed a way to relieve the housing problems of immigrants from western countries who pay no more than \$200 per month in rent. Henceforth, they receive the equivalent of 70% of the rent in assistance the first year, 60% the second year and 50% the third year.

#### APARTMENT PRICE PER ROOM (thousands of \$)

|  |       |
|--|-------|
| Tel Aviv (Northern and expensive region)                   | 35-48 |
| Tel Aviv (Rest of the city)                                | 25-35 |
| Jerusalem (Expensive neighborhoods of Talbieh and Rehavia) | 40-45 |
| Jerusalem (New neighborhoods and center city)              | 15-18 |
| Haifa (Expensive neighborhoods of Ahuza and Hacarmel)      | 30-38 |
| Haifa (Rest of the city and environs)                      | 15-25 |
| Ramat Hasharon   | 18-30 |
| Ra'anana   | 17-19 |
| Holon  | 15-22 |
| Ramat Gan (Expensive neighborhoods)                        | 35-45 |
| Ramat Gan (Rest of the city)                               | 20-40 |

Prices in both the rental and apartment purchase markets have picked up of late as demonstrated in the following table. The returns for commercial rental space are back to 10 to 12% annually. Big new buildings in central Tel Aviv, such as Asia House, are earning a gross \$25 per square meter while the Diamond Exchange in Ramat Gan and Shalom Towers in south Tel Aviv are charging \$10 to \$13 per square meter. South Tel Aviv rents are generally going for \$9 to \$10 per square meter. Jerusalem commercial space rents for \$10 to \$16 per square meter, depending on location, while the range in Haifa is \$6 to \$15. In old Beersheva they run from \$6 to \$9.

Tel Aviv is currently witnessing an upsurge in building activity of apartments for rent in its fashionable central district. Rents in this area are now \$100 per room for an unfurnished flat without telephone. Demand for these apartments is coming from those with Housing Ministry rights, particularly singles over the age of 27. New government loans and assistance are also available to these individuals.

The city of Tel Aviv is hoping to raise the number of apartments in the 320 dunam center city area from 3,000 to 4,600. Some of the apartments will be added in new stories, some will be in enlarged buildings and some will be totally new.

Contractors remain generally unhappy with the assistance they are receiving from the government. One example of failed expectations is the Building for Rental Law of 1981 which induced 220 contractors to build apartments for rent. Of a total of 7,000 apartments planned under this program, 4,000 were intended to be rented. A Contractor Center follow-up survey revealed that among respondents, 30 out of the 740 units completed were sold and 280 began were not even completed. In most cases the reason given was unprofitability because of the Tax Under Inflationary Conditions law, which adds some \$8,000 to the price of each unit built for rental.

The latest complaint from home owners with mortgages is that as they find it increasingly in their interests to prepay their "completion" mortgage (*halva'a mashlima*) the mortgage banks are raising their fees for such prepayment. With prior notification to the bank of the intention to prepay the outstanding balance and interest, the commission is now three months interest (1.8% of the linked remaining balance) and without prior notification, the situation of most mortgages, the commission is six months interest (3.75%). The 3.75% is charged regardless of notification if the mortgage is prepaid at any time over the first two

| THE PUBLIC'S FINANCIAL PORTFOLIO |                            |         |             |
|----------------------------------|----------------------------|---------|-------------|
| Asset type                       | In IS billions<br>27.12.83 | 10.4.84 | Real change |
| Cash and                         |                            |         |             |
| Checking Accounts                | 61                         | 89      | -3%         |
| PAKAM & TAPAS                    | 82                         | 177     | 43%         |
| PATAM                            | 425                        | 667     | 4%          |
| Bonds                            | 204                        | 310     | 1%          |
| Total                            | 772                        | 1,243   | 7%          |

years of the mortgage life.

Furthermore, until recently, mortgagees prepaying in the first half of the month did not have to incorporate the previous month's CPI rise. Now the banks assess a fee to cover the expected CPI rise and the mortgagee has lost his incentive.

#### Foreign currency

Israeli investment opportunities are increasingly overshadowed by our international obligations. International investment opportunities are by now closed to most Israelis. Our repayment of principal and interest will amount to some \$7 billion this calendar year and \$8.5 billion (more than the added value of Israel's total exports) next year. In the last seven years our external debt has grown by \$13 billion, a real 60% growth.

Needless to say, our credit-worthiness continues to sink. In the latest *Institutional Investor* ranking of country credit-worthiness, Israel ranks as the least credit-worthy Middle Eastern Country. We stand 65th in the world, out of 104 countries surveyed. Egypt is ranked 60th, Brazil 62nd, Chile 66th, Sri Lanka 67th and Turkey 68th.

The Israeli public has also appreciated the increased riskiness of shekel denominated assets and acted accordingly. Bank of Israel Governor Moshe Mandelbaum

reported that in the first months of the year, three-quarters of the money pumped into the economy was used to purchase foreign currency. April's expected IS40 billion money printing created a perceptible increase in demand. The Labor Alignment's ambiguous position on what it would do to the exchange rate if elected also helped push the black market price for dollars to a 10% premium over the official rate. The foreign currency purchases in April reversed the \$60 million in sales during March, which had brought PATAM holdings down to \$4.02 billion. The dollar's 18% appreciation in April lagged behind the expected 20% rise in the cost-of-living index.

On the purely international level, April saw a resurgence of the US dollar in relation to the Deutsche Mark and other European currencies. Continued high US interest rates and labor strife in Europe kept the dollar strong. With any fall in US rates, the Yen remains the most likely currency to benefit as Japan's healthy trade surplus and capital markets that are increasingly being liberalized should be attractive to investors. The Japanese stock market has appreciated 16% since the beginning of the year, compared to 12% in Britain, -5% in the US and a 1.8% worldwide average. ■

## FIRST REAL LOSSES FOR BANKS ANALYZED

Jerusalem THE ISRAEL ECONOMIST in English No 40, May 84 p 36

[Article by Andre Lumbroso]

[Text]

The magnitude of the banks' losses is shocking: Hapoalim — \$101.5 million; Leumi — \$71.9 million; Mizrahi — \$8.6 million. For a group of companies which had boasted of being the "oxygen of Israel's economy", such results are embarrassing, to say the least.

One might have expected that the directors of the banks would be unanimous in laying the blame squarely on the shoulders of the government. There is some truth in this. The new Taxation Under Conditions of Inflation Law has cost the banks money, and the limits put on the banks' liquidity requirements have cut deeply into their profits. Still, there is no doubt that the bankers are also at fault; as Finance Minister Yigal Cohen-Orgad said recently, the banks had been losing money for some time before the crisis of late 1983, and yet did nothing to cut operating costs. Israeli bankers were complacent, and now they will have to pay the price: management will probably have to submit to a changing of the guard, and other bank employees will have to be thinned out significantly.

**Bank share imbroglio**

Many of the banks' problems can be traced to their policy of regulating the prices of their own shares on the Tel Aviv Stock Exchange. It began in 1972, with Bank Hapoalim, with the other big banks following suit soon after.

The regulation of day-to-day fluctuations in bank shares was innocent enough, in theory: by smoothing out the random effects of market imperfections, it would make the securities more attractive for short-term investors, without on the other hand distorting the market price over the long run. But it was too tempting a tool to be used in so judicious a

manner. The banks used their immense influence in the Tel Aviv Stock Exchange to prevent their share prices from falling, without doing the same in regard to upward movement, pushing the prices up continuously over a period of years, mobilizing huge amounts of capital and lulling shareholders into the belief that their investments were gilt-edged.

The banks in effect "guaranteed" the value of their shares, and the public accepted this guarantee as absolute (in part because the government, under former Finance Minister Yoram Aridor, stood behind the banks). As a result, market forces were successfully thwarted — for a time.

Companies began to use bank shares to finance short-term cash flow, investing surplus funds in the securities almost as if they were merely checking accounts which paid interest. For example, it became a common practice to invest Value Added Tax receipts in bank shares until payment was due to the Treasury.

What few realized was that high yields, of up to 30% in real terms in 1983, are never found in assets having both high liquidity and low risk. The bank shares were not safe, even though the public was still blissfully unaware of this; all it would take to burst the bubble was a shock which the banks could not absorb, and that shock came in October 1983, when the public, fearing a massive devaluation of the shekel, sold bank shares in order to put the proceeds into foreign currency. The selling pressure forced the banks to import huge amounts of cash from their foreign branches, using it to buy up excess bank shares and thus support the price. When it became obvious that the public would continue to sell shares regardless of the support policy, the banks realized that they were pouring money down a rathole. On

October 6 they announced that they would no longer support the prices of their shares. The Treasury then closed the Stock Exchange and froze all foreign currency dealings for a period of about two weeks.

### **Inflated capital bases**

Before the crisis, the banks had used the capital they mobilized on the stock market to expand their capital bases beyond all proportion to their real economic proportions. By mid-1983, both Bank Leumi and Bank Hapoalim were worth over \$2 billion on paper — more than Chase Manhattan.

This apparent wealth helped the banks establish themselves as the success story of Israel's economy. Their prestige rose and their branch offices multiplied, an anomaly in world banking, which has been de-emphasizing services to small customers in favor of dealings with large corporations. At the same time, Israeli banks expanded overseas. When the bubble burst, they found themselves overextended on every front.

To be fair, the government was partly responsible for this. It had encouraged the bank share regulation as a means of sopping up purchasing power from the public, and had benefitted from the huge paper profits of the banks, which as a result found themselves paying huge taxes to the Treasury. In addition to this, the government's decision to freeze credit, without allowing interest rates to rise above the inflation rate, meant that the banks were forced to ration credit to their customers by administrative means. This proved beyond their ability to accomplish, and the banks ended up in a severe liquidity crisis, paying massive fines to the Treasury for lending above the allowed level.

### **End of an era**

Today the banks face awesome problems which they do not yet fully understand. The actual loss of money in 1983 is less worrisome than the revolution which has occurred in the way the banks do business. They are no longer allowed to manipulate the prices of their shares (the government does that now), which means that they can no longer raise capital from the Israeli public.

Only by rationalizing the bank's procedures, by laying off workers and closing marginal branches, can the banks hope to weather the storm. This is not good news for the consumer, who will face less helpful clerks and less convenient banking arrangements as the banks concentrate their energies on the more profitable corporate sector. Here they have to regain ground lost to the so-called "gray market" lenders, such as the clearing houses maintained by the large industrial conglomerates (Koor, Solel Boneh, Israel Chemicals, etc.).

### **Political repercussions**

The banks point out that the government, which was interested in using the banks to mobilize capital abroad, has an interest in protecting their image by bailing them out of their current problems. They also argue that as the government, for domestic and foreign policy reasons of its own, helped get them into their mess, it is in duty bound to get them out of it. Such claims have great effect in pre-election periods, when the government finds it difficult to reject economic claims by any powerful group. So far, the government has not knuckled under; the Treasury in the end refused to refund liquidity fines and income tax advances even though this put the banks' balances in the red. However, it would not be too surprising if some other compromise were reached before Israel goes to the polls. ■

## SOME ASPECTS OF DOLLARIZATION SAID ALREADY IMPLEMENTED

Jerusalem THE ISRAEL ECONOMIST in English No 40, May 84 p 66

[Article by Andre Lumbroso]

[Text] Only recently the Supersol supermarket chain began selling "Supertavs", which are essentially dollar-denominated food coupons. December public opinion polls showed 28.7% of respondents favoring dollarization, while in February the figure was 36.5%. Both of these occurrences are signs that dollarization is increasingly being thought of as a means to cope with our spiralling inflation.

There are two dimensions to dollarization. In a narrow sense, dollarization is moving the economy to a system of automatic dollar linkage. Prices in the stores would be denominated in dollars. So would wages, debts, assets and so on. The Israeli public would then calculate the shekel price of a product by multiplying the dollar price of that product by the representative exchange rate of the dollar.

The same would apply to wages. Workers would earn a certain wage denominated in dollars. At the end of the month, the firm would pay its employees the dollar wage times the exchange rate of the dollar.

In some respects, dollarization has already arrived. Few Israelis could tell how much they paid — in shekels — for an apartment, a plane ticket, a piece of jewelry, or the rent on their apartment. Many professionals now require fees denominated in dollars.

Some places of work pay their employees according to a dollar rate, so as to avoid the continuous hassle of calculating the shekel wage after the nearly monthly cost-of-living increment which they are expected to receive.

#### Aridor's intentions

However, the system of dollarization which was advocated last October by the

then Finance Minister Yoram Aridor, was much more ambitious and far-reaching. According to Aridor's proposal, the Israeli economy would be put on a dollar standard similar to the gold standard which existed in Western Europe prior to World War I. The Bank of Israel would print shekels only against dollars deposited in its accounts. Israel's economy would have to earn dollars to enable the central bank to print money; in other words, a deficit on the balance of payments could not exist.

Such a state of affairs can be achieved in one of two ways: by exporting more than we import, or by borrowing money overseas. Printing shekels in Israel against accumulated dollars in the Bank of Israel's coffers would cause inflation and prices would rise, immediately affecting exports and cutting down the surplus.

Similarly, in the case of a deficit, the central bank would have to withdraw currency from circulation, so that deflationary pressures could be set in motion. Prices in Israel would decline, encouraging exports and hampering imports, so that the deficit would be reduced.

We would, theoretically, be back under the dollar version of the Gold Standard, and, as with the Gold Standard, the government would have to strictly discipline itself. Printing money to finance the budget would become impossible. Borrowing money to finance current budgetary expenses would be fiscal heresy, since the country would eventually have to finance the repayment of that debt by reducing the overall money supply, creating deflation and recession.

Dollarization is not a new concept. Similar systems work in a few countries. It was in use in Mandatory Palestine, when Palestine Pounds were issued by a currency board which print-

ed local pounds only when British Pounds were deposited.

In Panama, the US dollar is an accepted currency. In Luxemburg, the Belgian franc is accepted as legal tender. The Bahamas uses the US dollar as well as a local currency. In these cases, a larger and smaller country's economies are intertwined, with the smaller country effectively losing its monetary independence to the larger. However, Israel is far from being integrated economically with the US. Israel actually has much closer economic ties with the EEC.

### Implications for Israel

The dollarization of the Israeli economy would constitute a complete structural overhaul. In the first place, the government would be forced to balance the budget, which would imply a reduction of government spending by some \$2 billion. This would plunge the economy into a deep recession. Unemployment would rise considerably but inflation would decline drastically.

The implementation of such a dollarization program would have little immediate effect on the balance of payments. The payments deficit essentially reflects structural factors, such as our narrow productive base and lack of raw materials. These problems would not be solved by dollarizing the economy; however, dollarization would create a climate in which the balance of payments became a fundamental short-term consideration. The government would be much more sensitive to the need to export and to limit imports.

Moreover, the rules of the game in the productive sector would be drastically altered. Companies would be unable to survive through cheap loans, subsidized credit and exchange rates; they would have to rely to a much greater extent on their products and the marketing skills of their managers.

The standard of living of the population as a whole would decline drastically.

Given all the above, the economy would probably emerge healthier from

such a drastic cure. The jolt to the citizenry would be staggering, but there is little doubt that benefits would be reaped.

### Ability to Function

What is at stake is our ability to function as a productive society. Inflation must be reduced, and in fact will. The question is, will we do it ourselves, in the framework of a thought-out policy, with the attendant burdens being distributed as equally as possible, or will we wait until the day comes when overseas loans cannot be had and we find ourselves essentially bankrupt, at which point the measures we take to avoid insolvency would also bring about a reduction of our inflation rate?

But is it the only way? No. The proposed system is equivalent to hospitalizing a chronic alcoholic, which is done not so much because hospital offers a treatment which is not available at home, but to remove the temptation to drink. What dollarization offers is the financial strait-jacket which would enable future finance ministers to say "No" to cabinet colleagues clamoring for additional budget allocations and to resist political blackmail by minor political parties such as Tami, the NRP or Agudat Israel. As a finance minister, Aridor learned first hand the limits of his power in opposition to his colleagues' excessive spending. This strait-jacket would have enabled him to say "I cannot" instead of "No".

The irony is that the world at large has been moving away from automatic systems. Western countries have all adopted a system of freely floating exchange rates to avoid the constraints of the rigid exchange rate system which existed until the early 70s. Similarly, the proposal to outlaw budgetary deficits in the US through a constitutional amendment did not succeed. Is our longing for automatic systems a symptom of the seriousness of our economic situation, or of the lag with which we adopt what was tried overseas and abandoned? ■

## LEGALITIES OF WEST BANK LAND PURCHASES DISCUSSED

Jerusalem THE ISRAEL ECONOMIST in English No 40, May 84 p 61

[Text]

During the period of Jordanian rule before 1967, most of the land in Judea and Samaria was not listed in any land registrar or office. Land listed with the tax authorities served as proof of ownership. Not all plots were listed in the tax records. Therefore, a buyer who purchases a plot which is registered has greater security that he is indeed buying from the real owner.

The Israeli civilian administration in Judea and Samaria recently opened a land registration office. Anyone who is registered with the office as a land owner is considered for all practical purposes the owner, so long as the courts of Judea and Samaria, which apply the Jordanian law, do not rule otherwise.

In order to prevent illegal deals and misrepresentation, the civilian authority recently implemented a procedure whereby a permit is granted to the seller which allows him to conduct sales of land. Such a permit is granted after the civilian authority has decided that the deal is not fraudulent and that the sale is by the real owner and his legal proxy. It should be noted that due to the fear of retaliation by PLO members against local Arabs, who sell land to Jews, the land owner generally does not sell to a Jew directly, but through a legal proxy.

The tax register is the best proof a permit holder can present to the civilian authority that the seller is indeed the real owner of the land. In addition, the seller must present the signatures of all neighbors whose land borders his property and of the *mukhtar* (head) of the village that he, the seller, is known to have had rights to the land for a long time. A combination of registration in the tax registrar and the necessary sig-

natures of the neighbors and the *mukhtar* is apparently enough to prove that the seller is indeed the real owner.

The civilian authority also makes use of internal information that it has about those who are known to own land in a particular area. It is also important to check whether the land is owned by a number of partners or heirs, as it is possible that some of them may not have agreed to the sale. If there is a sole owner, then this problem is less serious, as is the fear of a conspiracy. The civilian authority also checks the validity of the legal proxies.

After the civilian authority has granted a permit, the plot can be registered under the buyer's name in the Israeli Land Registrar. After the registration the process is speedy, since most of the inspections have by this point been completed and remaining inspections are mere technicalities.

As stated above, a court in Judea and Samaria can cancel the title as listed in the Israeli Land Registrar, if an opponent proves at any time that despite the inspections and the listing in the tax registrar, he is indeed the real owner and the land was fraudulantly sold. However, if the court recognizes the rights of the opponent, and if in the meantime the purchaser has had real "possession" and his outlays have exceeded the value of the land, i.e., he has put in improvements, then the court will not order the eviction of the purchaser, but will require him to compensate the real owner a sum equal to the land's current value.

As for taxes, the situation is as follows: Value Added Tax applies to land sales in Judea and Samaria, while Land Appreciation Tax does not. ■

## NEW COMMUNICATIONS CORPS EQUIPMENT REVEALED

Jerusalem THE JERUSALEM POST in English 12 Jun 84 p 3

[Article by Joshua Brilliant]

[Text]

The Israel Defence Forces has ordered computers that will permit a substantial reduction in manpower. Chief Communications and Electronics Officer Tat-Alut Mordechai Bar-Dagan said yesterday.

Speaking to defence correspondents in advance of the corps' day on Thursday, Bar-Dagan said the computers will be installed within a year and will enable a major reduction in clerical staff paper work.

Bar-Dagan also revealed that the IDF has introduced a new powerful two-way radio set that can be carried on soldiers' backs and can communicate with a station hundreds of kilometres away.

Some IDF units in rear camps are being linked by thin fiber optic lines, Bar-Dagan said. A laser beam is sent through the line and hundreds of telephone conversations and computer data can be transmitted.

But Bar-Dagan said it will take some years until the IDF replaces

some of its aging communications equipment.

Other developments include preparations for a new air raid warning system. The new system which will replace the present sirens will be more reliable.

The Communications Corps is opposed to plans for a second television channel. Bar-Dagan said the spectrum of frequencies is too small and a second channel would severely limit the IDF's use of the airwaves.

He said the IDF said a second channel could go on the air providing it was shut down during emergencies. Alternatively the civilian authorities could introduce cable TV. The matter is still open, he said.

One of the corps' units yesterday demonstrated its capabilities by setting up a communications post on a bare hillside capable of contacting an IDF division commander in Lebanon, civilians in Europe, and IDF bases inside Israel.

CSO: 4400/273

## EL 'AL'S COMMERCIAL 767'S BEGIN REGULAR FLIGHTS

Jerusalem THE JERUSALEM POST in English 12 Jun 84 p 6

[Article by Joshua Brilliant]

[Text]

TEL AVIV. - The sixth - and last - plane in a new fleet ordered for El Al began its regular service this week.

The plane, a Boeing 767 specially equipped for long-range flights, arrived here last Tuesday and was kept in the airline's hangar for several days while additional security devices were installed.

The wide-body twin-jet was delivered in Seattle, Washington, early last week and was used for a promotion flight between Miami and Montreal before it was sent non-stop across the Atlantic to Amsterdam with some 200 passengers and seven tons of cargo.

Its delivery concluded the deal whereby the State of Israel bought four Boeing 767s and two 737 models for the national carrier.

The new fleet is expected to see El Al into a better era. Part of El Al's past difficulties stemmed from using old Boeing 707 planes, which were heavy on fuel use. An attempt to buy the Airbus A300 produced by a European consortium was foiled - apparently by political considerations - and El Al sank deeper into debt as fuel prices soared.

Airline managers said they were very happy with the new planes, which surpassed all expectations according to some.

El Al now operates 19 planes - eight Boeing 747s and five 707s, in addition to the six new twin-jets. Two more Boeing 707s El Al owns were leased for charter flights by its subsidiary Sun d'Or and by Arkia.

El Al would like to sell two Boeing 707s, but has found no buyers so far.

## BRIEFS

INCREASED NORWEGIAN OIL SUPPLY--Norway has agreed to increase its sales of crude oil to Israel by 50 percent. An agreement on this was signed a short while ago. The Statoil Company, the Norwegian government oil company, has concluded an agreement with the Israeli Delek Company to sell larger quantities of high-quality crude oil. The director-general of the Delek Company, Avraham Agmon, concluded this agreement on his last visit to Norway and even signed it. According to the new agreement, the Delek Company will import about 800,000 tons of Norwegian oil per year. Besides this, the Statoil Company has approved an additional shipment beyond the quantity promised in October 1983. Israel is paying \$29.80 per barrel of Norwegian oil according to the world market price for such light oil or about \$210 per ton. Besides the Norwegian oil Israel is importing about 3 million tons of oil per year from Mexico, about 2 million tons per year from Egypt, and it is purchasing 1 and 1/2 tons on the spot market, the center of which is in Rotterdam, Holland. [By Oded Shorer] [Text] [Tel Aviv MA'ARIV in Hebrew 30 May 84 p 6] 5830

MILITARY WAGES SURPASS CIVILIAN--The wages of the regular IDF personnel are 70 to 90 percent higher than the wages in the civil service. This is evident from data that has become available to MA'ARIV. This was the difference in wages between the regular military personnel and the civil servants before the decision of the Ministerial Committee on the Economy to increase the wages of the regular military personnel by 9 to 18 percent. This fact has aroused considerable indignation in the Ministry of Finance which believed that there was no justification for granting such a high wage increase to the regular military personnel. The increase has caused, according to the Ministry of Finance, unrest, a wave of labor disputes, and demands for new wages in the economy that will cost the government many billions for wage increases until the elections. The following are examples of the wages of the regular military personnel in comparison with the wage levels of comparable grades in the civil service. (The comparability is in accordance with the agreement between the Ministry of Finance and the defense establishment, according to which the wages in the IDF and those in the civil service are compared.) The following examples are applicable to the April wage scale: [1] Brigadier General in a rear unit -- IS308,260 gross. Civil servant at grade 21: IS161,000. (Gap: 90 percent). [2] Colonel in a rear unit -- IS240,000. Civil servant at grade 20 -- IS139,000. (Gap: 72 percent). [3] Major in a rear unit -- IS167,000. Civil servant at grade 17 -- IS90,000. (Gap: 85 percent). Note: An officer in a combat unit receives about IS25,000 more than an officer in a rear unit. [By Shraga Makel] [Text] Tel Aviv MA'ARIV in Hebrew 5 Jun 84 p 5] 5830

CRITICISM OF ADMINISTRATION--Public administration in Israel is antiquated and in some aspects primitive, Professor Yehezkel Dror of the Hebrew University said at a news conference in Jerusalem yesterday. Dror reported recommendations to improve government and administration prepared by a team composed of himself; Prof. Yosef Rom, a Likud Knesset member; and Dr. Moshe Shani, of the University of Haifa. One of the team's 14 recommendations calls for the appointment of a minister of public administration. Another calls for a re-examination of all of the government's activities. A third proposes that the prime minister's position be strengthened by empowering him to decide on new Knesset elections. The recommendations, fully explained, appear in a 21-page booklet published by the Tel Aviv College of Administration. Dr. Elizer Fuchs, administrator of the college, noted that the improvement of public administration has low priority. One indication of this, he observed, was the poor attendance at the press conference itself. [Text] [Jerusalem THE JERUSALEM POST in English 12 Jun 84 p 3]

JORDAN RIFT FINANCIAL DISTRESS--Five moshavim in the Jordan Rift are facing collapse if the Jewish Agency Settlement Department does not immediately transfer the IS500 million it owes them, the Moshavim Movement warned yesterday. The moshavim--Gittit, Petzael (Phasael), Netiv Hagedud, Tomer and Yafit--are affiliated with Betar and the Moshavim Movement. They accused department head Mattityahu Drobles of transferring IS55m. to other settlements in Judea and Samaria while ignoring the financial distress of the Rift moshavim. The head of the moshav purchasing organization warned both the Agency and the government several months ago that huge debts were piling up against the five moshavim and that their line of credit may be endangered. Yesterday, he again warned that the organization is considering stopping its dealings with the moshavim. The settlers themselves have threatened to block the Rift road if the purchasing organization cuts off their supplies. Earlier this week, farmers from Hevel Shalom in the western Negev blocked the entrance to the Egyptian border terminal to protest against the official neglect that has led to their deteriorating financial situation. [Text] [Jerusalem THE JERUSALEM POST in English 12 Jun 84 p 3]

CSO: 4400/273

KING'S MEETING WITH ISLAMIC UNIVERSITY STUDENTS REPORTED

London AL-MAJALLAH in Arabic No 222, 12-18 May 84 pp 11-13

[Article by 'Amr Hafiz and Mahir 'Abbas: "King Fahd Bolsters Islamic Education Policies; Paternal and Frank Meeting Between King Fahd and University Students"]

[Text] Riyadh--The open meeting which was held by King Fahd ibn 'Abd-al-'Aziz, the Saudi monarch, with the students of Imam Muhammad ibn Sa'ud Islamic University on 2 May 1984 and which lasted 160 minutes, is a model to be followed in political dialogue. The meeting opened new horizons for political dialogue and shed strong light on the role of the university in bolstering the Saudi society's progress movement. In this report, AL-MAJALLAH offers a summary of the most important topics discussed in the dialogue and an exclusive interview with Dr 'Abdallah ibn 'Abd-al-Muhsin al-Turki, the university director [president], to shed light on the university's most important internal and external activities.

"The Kingdom of Saudi Arabia does not bargain over its dignity nor does it barter this dignity for anything whatsoever. How is this reconciled with the kingdom's wish to cooperate with the world countries and peoples--a wish proven by numerous experiences and stances--when some adopt positions that do not please the kingdom? We deal with other countries the way they deal with us. If they behave well toward us, we behave well toward them and if they try to hurt us, then it is in the nature of things for self-defense to be legitimate. I mean by this the non-Arab and non-Islamic countries because it is fortunate that the relations of the Kingdom of Saudi Arabia with the Islamic countries generally and with the Arab countries in particular are excellent relations. We in the Kingdom of Saudi Arabia never try to create problems and always try to knock on the doors of goodness. We owe nobody a favor, thanks be to the almighty God. We want nothing and no favors from anybody. But we will not under any circumstances agree to relinquish any of our legitimate rights and we deal with all circles as well as they deal with the Kingdom of Saudi Arabia." These are some extracts from the answer given by King Fahd ibn 'Abd-al-'Aziz the Saudi monarch, to a question raised by one of the students of the Imam Muhammad ibn Sa'ud Islamic University during the king's open meeting with the students on Wednesday, 2 May 1984. The meeting lasted 160 minutes. Even though the question was third in the list of 22 questions which the Saudi monarch answered, the king mapped

anew in his answer to this question the policy according to which the Kingdom of Saudi Arabia deals with the world map, demonstrating on what grounds the kingdom stands and from what angle it moves. In this answer, the king reaffirmed the position of the kingdom's relations with its brothers in the Arab and Islamic world countries. The king also defined with extreme acumen the kingdom's position when exposed to any harm, saying: "We will not agree under any circumstance to relinquish any of our legitimate rights."

The meeting has come within the context of the continuous meetings which King Fahd holds with the various groups of ulema, shaykhs and citizens. It was preceeded by the king's meetings with the students of the Islamic University last year and his meeting with the students of King Sa'ud University, his meeting at King 'Abd-al-'Aziz University and then his meeting with the students of the universities in the eastern province. This meeting is an extension of the successful meetings which dot the i's and cross the t's and provide convincing answers to numerous questions. However, political observers have tied the meeting with the current Arab, local and political events in the area, especially since the first meeting between King Fahd and the citizens came after the announcement of this year's budget and also after Riyadh witnessed clear, and at times silent, Arab and Islamic movement in the past 3 weeks to unite the Arab and Islamic ranks. This is why diplomatic observers awaited the Imam University meeting with great interest, saying that it is a local meeting wearing the robe of international, Islamic and economic issues. One notable attending the Saudi monarch's meeting with the University Council, the faculty and the students of the Imam University at the university's new premises has said that the meeting was a clear answer as to the extent of interest in the cultural tide, in education and in building the citizen, to whom the Saudi monarch devotes special attention. The notable added that the economic, developmental and industrial issues underlined by the king have drawn a clear line for the development which the kingdom is currently seeking and for the kingdom's future needs, especially the issues underlined in the king's talk about agriculture and oil.

#### Beginning of March

In his talk about oil, King Fahd explained the start of the march in 1950, i.e. 34 years ago, and described the kingdom's present position, saying: "Without exaggeration, our present position is the best position in the world insofar as development of all the public facilities is concerned." When talking about education, the Saudi monarch noted that there had been no more than 4 secondary schools and a total of 35,000 students in the kingdom. As to the [present] situation in this regard, King Fahd asserted that "it is one of the greatest upsurges in education in the world." He described education as being fundamental in the life of nations insofar as industry, agriculture and related matters are concerned. As for the numbers of students in the various stages of education, they have made a major leap, with these numbers amounting, according to the king's statements, to 2 million students in the various spheres of education. These numbers of students are served, as is well known, by seven Saudi universities, including King 'Abd-al-'Aziz University in Jiddah, King Sa'ud University in Riyadh, Imam Muhammad ibn

Sa'ud Islamic University and the Islamic University in venerable Medina and the Petroleum and Minerals University in Zahran.

What is noticeable in King Fahd's address is his repeated stress that "the main base is the Islamic faith. It is a firm base established since old times in the mind of the citizen as a complete conviction because it is the base from which good and abundance can emanate."

King Fahd also stressed that dialogue is what produces fruits in the interest of the homeland when he said: "I believe that the soundest and most suitable path is the path where there is one who asks and one who answers, with this asking and that answering." Regarding technology, the king noted the kingdom's efforts to keep up pace with technology and said that the kingdom has exerted efforts to set up a technology institute in order to catch up with the bandwagon in this regard.

Regarding the drop in oil production and prices and the impact of this on the economic indicators, King Fahd pointed out Saudi Arabia's oil production had amounted to 11 million barrels daily, with the production then dropping by 4.5 million barrels, saying that the drop is based on economic aspects in the consuming countries. The king underlined the kingdom's experiment in grain production, stressing that it will be expanded to other crops, which are now imported from abroad, to achieve self-sufficiency in these crops. Commenting on the king's answers, a university professor attending the meeting has told AL-MAJALLAH that the answers covered everything and that the king defined the features of the path for the coming period and the role of the Saudi citizen in continuing the process of comprehensive development in the current phase.

Regarding the kingdom's policy on foreign aid, the Saudi monarch asserted that this policy is intended to serve the Islamic faith and that it includes building schools and mosques, describing this as one of the main objectives of advancing aid to the Islamic countries.

#### University's Ambitious Plan

Regarding the plans of Imam Muhammad ibn Sa'ud Islamic University, Hafiz 'Amr, our correspondent in Riyadh, has conducted an exclusive interview with Dr 'Abdallah ibn 'Abd-al-Mushin al-Turki, the university president. Here is the text of the interview:

[Question] On the ninth of the month of Rabi' al-Awwal of the year 1402 of the Hegira, His Majesty King Fahd ibn 'Abd-al-'Aziz laid down the cornerstone for Imam Muhammad ibn Sa'ud Islamic University at a site on the road to King Khalid International Airport in Riyadh. What are the phases completed and built atop that base, considering that you are completing what His Majesty King Fahd had begun and that you are putting subsequent bricks atop the base he founded?

[Answer] This is a question that begins with the right statement and with the proper information that acknowledges the credit due the forerunners being aware of the reality and tying the event to the human will that is successful in performing the good in its highest form and best level, namely the educational institute founded on good and beneficial education, guided by such education and leading to it. The laying down by King Fahd ibn 'Abd-al-'Aziz, may God preserve him, of the cornerstone of our university's college campus comes within the context of the king's laying down the foundations of our country's comprehensive educational renaissance--a renaissance to which we find no equivalent in the U.N. statistics or graphs charting the growth of education in the world in terms of programmed growth and speed. Yes, God has blessed our country with abundant resources. But such resources are not in all cases a path toward education or toward the fulfillment of onrushing and unrestrained educational ambition. What turns financial resources and prosperity into a path of comprehensive educational progress is the great appreciation for education, for the requirement of education, for the place of education and for the fruits of education by a leadership that does not view education as just a means of development but views it primarily as the main and most important basis for our human, cultural, national and international existence.

This fact is embodied in what His Majesty King Fahd said upon laying down the cornerstone for our university's college campus, namely: "Our culture has been founded on education since the first day in which the first word of the venerable Koran was revealed, saying: 'Read in the name of God, the creator who has created man from (mud). Read and your most munificent God Who teaches with the pen has taught man what he did not know.' This is where education is tied to God, may He be praised, in our Islamic educational history and here is where we find the selfless devotion to learning and where we find the proper choice of education that brings man happiness, improves his moral and material standard and explodes his mental and intellectual capabilities in production and innovation." With this farsighted vision of education by the leadership, the main educational strategy was established according to central planning characterized by comprehensiveness, openness, firmness, followup and generous fiscal spending and in light of three dimensions which the leadership totally explored and has always kept in mind:

1. The dimension of the indisputable principle of faith and the subsequent values, ethics, principles, belonging and precise responsibility toward the message, sanctities and nation of Islam that emanate from this faith.
2. The realistic dimension and what this dimension demands in terms of a wise understanding of the requirements of the age and of the developments of life, of a judicious understanding of the variety of specializations, of objective awareness of the needs and in terms of ability to absorb all the existing technological accomplishments.
3. The futuristic dimension and what it requires in terms of opening the mind of the generations, of preparing their awareness to absorb future technological accomplishments, in terms of preparing them to deal soundly

with the means, methods and patterns of life and in terms of the education, information and recreation which the future will produce.

Consequently, the educational renaissance has expanded horizontally to include all of the kingdom's cities and villages and its male and female students. This renaissance has grown vertically, producing seven universities that make university education and higher studies available. The renaissance has diversified qualitatively to include all specializations: Shari'ah experimental and human. Our university is a reflection--visible, written and spoken--of this lofty renaissance. It is true that our university has a distinctive quality but this is a distinction derived from and reflecting the total procession of the educational renaissance. If the comprehensive educational renaissance is characterized by horizontal expansion, vertical integration and diversified specialization, then our university is characterized by the same features and qualities. Insofar as horizontal expansion is concerned, our university has extended to the kingdom's five provinces: the central, western, northern, southern and eastern provinces. Insofar as the vertical system of education is concerned, the university's phases of education rise gradually from intermediate to secondary, university and higher studies. Insofar as specialization is concerned, the specializations of dogma Shari'ah, the Koran and Koran sciences, the Sunna and its sciences, the advocacy, the judiciary, Arabic, economics, information, management, education, languages, libraries, sociology, psychology, geography and history flourish in our university.

#### Structural Framework

(Dr al-Turki went on to add:) From the talk of content and concept, we now move to talk about the vessel or the structural framework. The site for the college campus was delivered to the contractor in 1401 of the Hegira to declare the start of implementation. We have set the following list of implementation priorities:

1. The area for housing single people: The period set for the completion of this area is 40 months and the completion date is the month of Rabi' al-Awwal 1405 of the Hegira.
2. The educational area: The period set for its completion is 48 months and the completion date is the 6th month of 1406 of the Hegira.
3. The plants and networks for the main facilities: The period set for their completion is 24 months and the date of completion is Rabi' al-Awwal of 1406 of the Hegira.
4. The sports area and the medical center: The period set for their completion is 24 months and the date of completion is the month of Shawwal 1406 of the Hegira.
5. The services area: The period set for its completion is 24 months and the expected date of completion is 1407 of the Hegira.

6. Housing for faculty members: The period set for its completion is 48 months and the completion date is 1409 of the Hegira.

7. The second phase of the educational area: The period set for its completion is 48 months and the date of completion is 1410 of the Hegira.

The college campus will have then become one of Riyadh's, rather the kingdom's, complete cultural features. The aesthetic and perfectionist requirements dictate, while speaking about the structural framework of the college campus, that we state that the cultural, architectural features of the nation must mirror the nation's values, cultural characteristics, artistic taste and aesthetic sense. We have incorporated these values in the architectural design of the college town, seeking in this respect:

A. To adhere to the Islamic architectural art insofar as space, form and relationship are concerned--with this adherence being modified by beneficial modern facts in this regard.

B. Apply the Islamic "population values" in the housing buildings especially and in other buildings generally. We mean by application of the Islamic "population values" designing the structures in a manner that enables those living in this university campus to visualize Islam's social values, ethics and traditions that seek to protect the sanctity of a house, to respect the neighbor's right, to observe proper behavior between the two sexes and other aspects that are included in the concept of population values. It is well known that the architectural form affects values either positively or negatively.

C. Provide space and spaciousness in the architectural structure because spaciousness is one of the elements of happiness, as the venerable Hadith of the prophet says. Spaciousness soothes the nerves and realizes psychological health.

D. Cover the earth with a carpet of green and with trees, flowers and roses. Life is not just bread, meat, a resting place, a book, a pen, lectures, classes and examinations. It is, moreover, beauty, greenery, bloom, delight and comeliness. God has said: "We have created the heavens and the earth and have sent you water from heaven with which we have grown delightful gardens whose trees you would not have been able to grow" and "We have stretched the earth and We have sown in it seeds and produced a delightful pair of every kind." The prophet was right when he said: "God is beautiful and He loves beauty."

#### University Extensions

[Question] In your answer to our previous question you have said that the Imam University has expanded to include the kingdom's five provinces. Does the university have similar extension externally?

[Answer] Similar, no. First, because it is not essential that the extension be similar. Second, because the internal or national emphasis and contribution--

through education, thought and qualified manpower--to bolstering the base or the model which the Islamic world adopts to correct the faith, to implement the Shar'ah and to establish the movement of growth and development on a correct course should open up to the beneficial "international expertise" to employ it in serving, not weakening or abolishing, values. Contributing to the strengthening of this "leading" model should take the priority and preference in action. Third, because the "freedom of work" is guaranteed and tended in our country whereas it is limited and restricted abroad for numerous factors. However, the university does have a strong external extension that carries out and performs its message. The "similarity" may be present, but only in quality and not in volume, because the university does have an external educational, cultural and civilizational message similar, qualitatively, to its national message. Following the state's tendency, the university focuses on self-building and on achieving "cultural capability." At the same time, it shoulders its external or international responsibility sincerely, faithfully, resolutely and with perseverance and out of faith in the greater message undertaken by the kingdom under the leadership of His Majesty King Fahd ibn 'Abd-al-'Aziz, may God keep him and give him success, toward the Islamic world and toward all mankind and out of interaction with the Islamic nation's expectations from this country--the birthplace of revelation, the cradle of the message and the home of sanctities--and out of the Islamic nation's devotional bond to the kingdom which contains the Ka'bah and the mosque of the prophet, may God's peace and prayers be upon him, where one prayer is better than a thousand prayers. Proceeding on the basis of all of this, the university has carried out royal instructions to contribute to serving the Islamic world, to entrenching and strengthening Islam and to projecting Islam in its pure and beautiful picture.

The forms of this effort have been numerous and its aspects varied:

1. The university has set up institutes outside the kingdom in each of Indonesia, Japan, Mauritania and Djibouti. Earlier, it had established a scientific center in Ra's al-Khaymah. The university is eager to make these institutes a field from which sound and confirmed sciences and knowledge are derived, meeting places for noble and constructive Islamic dialogue and sites dominated by the climate of uprightness and moderation which constitute the path to the survival of a nation.
2. One of the forms of this effort are the academic scholarships for studies in universities, institutes and research centers in various parts of the world. The effort also includes assisting the Islamic centers and councils with all possible means with the purpose of developing them and offering the outcome of all of the expertise and experience derived by the university from its own experience in the sphere of Islamic education and of serving Islam.
3. The effort further includes spreading the Islamic book that bears the sound thought and the genuine culture. This is a task which we truly appreciate when we view the need of modern Islamic awareness for principled education and the correct culture which, with God's power and might, protect this awareness from negativism, excess and response to those who introduce into Islam that which is not part of it, such as widespread sedition and

imaginary guesswork.

4. The university has a permanent presence in:

A. A number of departments of Arab and Islamic studies in European and U.S. universities.

B. In the international educational, intellectual and cultural conferences connected with the university's message and objectives.

C. In the sphere of scientific research through the university's research center.

[Question] The university supervises courses for scholarship students and embraces a large number of sons of the Islamic world who have come to it in search of education. Has the university succeeded in these two spheres?

[Answer] Regardless of what strides man makes toward perfection, to claim perfection is impermissible for two considerations: A. Absolute perfection belongs to God alone. B. The claim of perfection is a pretext for freezing, petrification and terminating the efforts for relative perfection. To my mind, one of the reasons of backwardness is the delusion among the backward that they have achieved educational, intellectual or administrative perfection. It is an enormous delusion that keeps individuals and entire nations within the sphere of ugly backwardness. It is my belief that one of the causes of progress is the strong awareness of the urgent need for further steps leading to perfection and the strong feeling that the effort still needs to be improved and enhanced. Let me add that it is enough for man to adopt the means of success, to enact its laws and to seek to achieve it in the correct form. We can sum up all this along two axes:

A. The axis of motive and intention which must be sincere and for the sake of God alone.

B. The axis of meeting all the objective conditions needed for the work.

The objective conditions for performance of the responsibility of supervising the courses for scholarship students are:

1. The clear and reasonable visualization of the task and the responsibility.

2. The right program.

3. The human capabilities that can visualize the task and implement the program.

4. A charitable method of treatment.

5. Seeking the opinions of the scholarship students with the objective of putting them to use in a later phase.

6. An intrinsic periodic evaluation of performance with the aim of achieving constant progress. The university has exerted its utmost efforts in this regard.

However, there are signs indicating that the university has succeeded in performing this task (we must note here the standard and practical differences between success and perfection). The most important of these signs are:

A. The satisfaction we have felt in the guidance and support sources involved in conducting three courses. It is a satisfaction embodied in the ever-renewed encouragement, attention and care devoted [to the courses]. The university's effort in this regard has, God be thanked, been the subject of appreciation.

B. The second sign in assessing the success is the scholarship student himself, meaning his response to the courses and his interaction with their programs. The objective is to enable the scholarship student to emerge from these courses with enhanced standard and cultural knowledge, with the real picture of his country and of the country to which he will go becoming truly and objectively clearer in his mind, with renewed feeling in his heart and his mind of his responsibility toward his religion, homeland, nation and specialization and with a stronger conviction that these courses are not teaching or instruction classes but are rather tantamount to a purposeful dialogue on a number of issues and topics aimed at establishing sincere and enlightened cooperation between the university and the scholarship student to bring success to the mission of the scholarship student himself. We are pleased that the students emerge from the courses with this visualization. As for the sons of the Islamic world and their utilization of the academic grants allocated for them by the kingdom in light of the royal instructions, the university participates with its colleagues in implementing this program, thus fulfilling an important part of the Islamic world's needs. Let us not leave this point before we note an important fact, namely that the Muslims seeking to get an education in the kingdom have a special view which emanates from the distinguished position enjoyed by the kingdom, meaning the prevalent Islamic climate, the holy places, the kingdom's leadership of Islamic solidarity and the foundation of the kingdom's education on a sound basis. Because of this view, there is a large demand and a growing desire for getting an education in the kingdom. Our university is a part of a whole. The Kingdom of Saudi Arabia is the country of all Muslims. Consequently, our university is the university of all Muslims.

[Question] We will not perhaps deviate from this framework if we ask your excellency to give us an idea on the Islamic Institute in Japan, which is under the university control, as one of the most modern institutions set up by the university abroad.

[Answer] I will talk about the institute's goals, sections, students and facilities.

First, the institute's objectives: 1. Strengthen the relations of friendship between the Japanese people and the Arab peoples and bolster the relationship between the kingdom and Japan in particular and the relationship between the Islamic world and Japan generally; 2. Spread Arabic and teach it to non-speakers of the language; 3. Introduce Islam scientifically and assist those wishing to be acquainted with Islamic culture; 4. Assist the Japanese and

non-Japanese Muslims to familiarize themselves with the dictates and teachings of their religion; 5. Translate the proper Islamic and Arabic studies from and into Japanese; 6. Care for the children of members of the Islamic and Arab diplomatic corps in the spheres of Arab and Islamic education.

Second, the institute's sections: There are three main sections in the institute, namely: A. the language training section; B. the section for teaching the children of the Islamic communities; C. the research, translations, and cultural relations section. Each section has branches that serve its purpose and objectives.

Third, the institute's facilities: The institute contains a number of main and support facilities such as: A. the mosque and its annexes; B. four fully-equipped classrooms; C. the language laboratory; D. two halls for lectures, conferences and ceremonies; E. the public library.

Fourth, the institute's students: A number of students from various nationalities are enrolled in the institute. For example, nearly 50 students from various nationalities, including Japanese, Indonesian, Ghanaian and U.S. students, are enrolled in the morning program. In the evening program, there are more than 125 students representing the following nationalities: Japanese, Indonesian, Pakistani, Turkish, Sri Lankan and French.

8494

CSO: 4404/512

RAMIFICATIONS OF IRANIAN PLANE INCIDENT EXPLORED

London AL-TADAMUN in Arabic No 62, 16 Jun 84 pp 8-9

[Article by Fu'ad Matar: "Exclusive AL-TADAMUN Information on First Saudi Communique in Latest Gulf Round; Iran Wanted It To Be Suicidal Message and Saudi Response Was Decisive"]

[Text] Those who downed the aircraft were Saudis and the United States has tried to exploit the operation in a tactless manner.

The confrontation has proven that Saudi Arabia can support Iraq with more than money if Iran will not put a halt to the war.

The downing of the Iranian aircraft has dropped the considerations given by the Syrian guarantor in supporting Iran. Will Damascus devise new considerations?

The information available to the international oil companies says that Iran is planning to build a pipeline along the length of its borders at a cost of \$3 billion. The question is whether the Gulf states will persuade Japan to stop purchasing oil from Iran.

Regarding the dogfight which took place over the Saudi territorial waters on Tuesday, 6 June 1984, AL-TADAMUN offers some information and observations in the following lines. The source of this information and these observations are three parties:

The first party is an official Gulf personality who has expressed his wish not to have his name or the position he holds revealed. AL-TADAMUN respects this wish but can assert that this personality is very close to the decision-making circle in its country.

The second party is a very prominent U.S. personality who represents U.S. interests in the Kingdom of Saudi Arabia. This personality is always in the shadow but his word is heard, and at times resounding, especially when major decisions are made. London is the center for this personality at

many times of the year.

The third party is an official Saudi source.

AL-TADAMUN will cite the information and observations as follows:

First, many have paused before the method adopted by the Saudi military communique. Just for a reminder, Riyadh Radio Station interrupted its regular programming on Tuesday afternoon to broadcast the following communique:

"At exactly 1233 today, Tuesday, the Saudi early warning systems observed a target heading for the kingdom's coastline. When this target surpassed the international waters and entered the kingdom's territorial waters, heading for its coastline, aircraft of the Saudi Royal Air Force intercepted the target, clashed with it and shot it down." An "official source" then made the following comment on the incident: "There is no doubt that it is a surprising incident which we condemn and denounce, especially since informed sources connected with the Saudi observation systems have stressed that the Saudi air defense systems had warned the target upon approaching the Saudi coastline to retreat beyond the territorial waters and not to move closer. But the target ignored the warning and entered the territorial waters, heading for the coastline. This forced the Saudi Royal Air Force to exercise its legitimate right to defend the country's coastline. We hope that this incident will not recur so as to preserve the area's security and to prevent any new developments."

From the phrasing of the communique and the phrasing of the comment, it is obvious that there has been some sort of mixing of the diplomatic tone with the military tone. It may be even said that this is one of the few times in the history of military communiqués when there is an eagerness to follow the military communique with an explanation characterized by diplomatic expressions that are not totally void of delicateness. By reviewing the method of dealing with others which Saudi Arabia has adopted in the past 10 years, it becomes evident to us that even at moments when there is the greatest need for decisive positions, Saudi Arabia does not close the windows of diplomatic words.

Second, what draws attention is that the military communique has used the word "target" and not "hostile target" or "Iranian target." The purpose behind such use may be that the lack of definition helps to prevent achieving what the other side (Iran) wants, namely to consider the Kingdom of Saudi Arabia a direct party in the Iran-Iraq war, or the lack of definition may have emanated from the fact that the intruding plane was camouflaged and that it was not known whether it was Iranian or non-Iranian. The purpose may also be to leave it up to Iran to explain it for itself or to consider that as long as it has attacked a Saudi tanker and earlier a Kuwaiti tanker, then it is the "target" to which the Saudi military communique refers.

Third, Iran's resorting to this approach seems as if it were a challenge resulting from the climate spread inside Iran by the Security Council resolution. This resolution has, despite the meager influence of its eight provisions, shown that Iran is isolated even from countries that are supposed to be its friends.

But this operation has another dimension, considering that it may have been a message from Iran which the Kingdom of Saudi Arabia has been able to understand very precisely. The upshot of this message is that Iran can resort to suicidal operations if the noose is tightened around its neck. It may even go further, striking by means of suicide pilots the oil wells, not just tankers, in all the Gulf states. Therefore, the message carrier, i.e. the pilot who ignored the warning of the Saudi military authorities and moved on toward the kingdom's coastline even though he had entered the stage of certain danger, was one of the suicide pilots prepared for complex operations.

Fourth, from the course of the operations ending in downing the Iranian aircraft, it seems as if the air force command and the air defense forces are given advance instructions calling for shooting down any target after warning it. The operation carried out demonstrated that the matter does not permit consultation.

It may be assumed that in contrast to the Saudi officials' annoyance with the tactless U.S. act embodied in statements attributing the downing of the Iranian aircraft (and it is said two aircraft) to non-Saudis, information has become available to one of those who represent the U.S. oil interests affirming that those who downed the Iranian planes were Saudis. It is worth noting here that the princes piloting the Saudi air force planes are highly capable and come from the generation of Prince Bandar ibn Sultan, the current Saudi ambassador in Washington, and from the generation of Prince Mansur ibn Bandar ibn 'Abd-al-'Aziz.

These two generations want to reaffirm that the U.S. machine is not everything in the issue of protecting the kingdom.

Fifth, in the wake of the downing of the Iranian aircraft, a feeling of self-confidence coursed in numerous circles in the kingdom, countered by a feeling of bitterness in the same circles because the United States exploited the operation to advertise its weapons. The reason for this is that the Kingdom of Saudi Arabia did not try to exploit the operation in the interest of its young pilots, who have proven that they enjoy high capability. By the way, the early warning systems which observed the aircraft simply did their job, nothing more.

As for the feeling of self-confidence, it emanates from the prevalent impression that the Kingdom of Saudi Arabia is active in purchasing, but not using, weapons and that it deals with the power of the financial, not the military, affairs. If there are many inside and outside the country wondering where this money--spent on weapons, the army and the national guard--goes, the operation of shooting down the Iranian aircraft has, with its precise action and targeting, answered numerous questions.

Had the people been mobilized through a less delicate military communique than the one issued, endless celebrations would have been held for the air force because the Saudi is eager to engage in a challenge, especially against those who provide his feelings and see nothing in him other than a human being living in prosperity. Just for a reminder, for a victory in a soccer tournament, celebrations were held and those celebrations were compatible with the eagerness for victory but not compatible with the logic of winning a soccer tournament.

Sixth, in the wake of this operation, the kingdom has gained even more weight than before and has become, in the view of the major powers, capable of protecting its borders. Inasmuch as this raises the level of self-confidence, it makes the responsibility so much bigger at the level of supporting their brothers and the level of protecting the growth and development plans. If it may be assumed that one of the motives for the Iran-Iraq war is to weaken the importance of Iraq, which had gained strength at the level of development and the level of military power, then it would be possible to imagine the same responsibility insofar as the Kingdom of Saudi Arabia is concerned. The Iranians may have assumed that the Kingdom of Saudi Arabia could not withstand confrontation or does not have the ability for confrontation and that the statements of King Fahd ibn 'Abd-al-'Aziz, especially his warning in the period between issuance of the Security Council resolution and the Iranian aircraft's violation of the Saudi coastline, are no more than a display of force. In his warning, the king said: "We assert the eagerness of the Kingdom of Saudi Arabia to follow calm methods to deal with the current situation in the Gulf peacefully and to avoid violence as much as possible. However, we will do our utmost to defend our homelands and to safeguard our rights with all means, depending on God, may He be praised, and then on the ability of the men and the weapons and on our deep faith in the justice of our cause, deriving help and success from God."

Besides, in the wake of this operation, Saudi Arabia's responsibility in supporting Iraq has become bigger, meaning that it can offer support with more than money if Iran does not put an end to the war and agree to coexistence and to the solution that does all parties justice.

The kingdom's responsibility has also become bigger in supporting the Gulf Cooperation Council's member states which are, especially Kuwait, targets for which Iran is awaiting the proper opportunity to strike. When Iran repeatedly attacked the Kuwaiti tanker Kazimah on Monday, 11 June 1984, attention turned immediately to the Kingdom of Saudi Arabia and to what it may do in the face of Iran's failure to stop these provocations and attacks.

Seventh, in the wake of the Iranian aircraft incident, it is permissible to assume that the quality of Saudi-Syrian relations and Kuwait-Syrian relations is no longer what it used to be, meaning that the considerations cited by the Syrian guarantor in the course of his justifying the need to improve relations with the Iranian regime no longer convince the Saudi and Kuwaiti rulers. The considerations given by the Syrians were that the Iranians had pledged to Syrian officials not to cause the Kingdom of Saudi Arabia, Kuwait

and the other Gulf states any harm and that their war was against Iraq alone. In the past 3 years, those considerations were acceptable in one way or another to the Saudi and Kuwaiti rulers and to most leaders of the Gulf states. But then came the Iranian attacks against the Kuwaiti and Saudi tankers and the incident of the Iranian aircraft over the Saudi coastline to drop these considerations or to at least make them unfit for justifying the continued support of the Syrian regime for Iran. Iran has declared war on the economic interests of the Gulf states. In the face of this situation, the question is: Will the Syrian regime devise new considerations so that the Gulf's assistance for it may not stop, especially since Syria has been experiencing for some time a crisis of fuel and food supplies, and will Saudi Arabia and Kuwait accept, in the wake of what has happened, anything less than support from the Syrian regime for them, regardless of this regime's dispute with Iraq?

Eighth, there is, moreover, a question that is as important, namely: Will the Kingdom of Saudi Arabia and the State of Kuwait resort to persuading Japan in one way or another to stop importing oil from Iran at present because if Iran continues to rely on the fact that there is a country like Japan which imports nearly 60 percent of its oil production, then why should the regime of the ayatollahs stop the war, especially since these ayatollahs are ardent for the game of war and especially since they face two options: Either score victory, and this seems impossible, or fall?

The attempt to persuade Japan is proceeding in two directions: The first is to persuade the United States so that it may in turn persuade Japan and the second is to threaten Japanese interests in the Kingdom of Saudi Arabia and the other Gulf states by reducing the goods imported from Japan or by compensating Japan for [the loss of] Iran's market by increasing imports and enhancing the importance of the Japanese technology.

Ninth, despite the worrisome gloom on the area's horizons, the incident of the Iranian aircraft, the Saudi military communique issued on the incident and the manner in which the Saudi Royal Air Force dealt with the aircraft--which, to repeat, may have been on a suicide mission--leaves the impression that the incident may recur, that the first communique will be followed by other communiqués and that this will occur within the framework of the final round of the Gulf war because with the approach of the fifth anniversary of the Iraq-Iran war, it is permissible to say that this war will either come to an end or will be actually entrenched as an Iranian-Gulf war.

Tenth, the contact made by the Kingdom of Saudi Arabia with the Soviet Union with the aim of supporting the Gulf complaint against Iran at the Security Council has given good results. These results can be discerned from the outcome of the vote and from the phrasing with which the Security Council resolution emerged. It is not unlikely that the Saudi delegate to the United Nations may have thanked the Soviet delegate for the Soviet leadership's response to the Saudi request for supporting the complaint. In view of this, is it permissible to assume that the claim of the United States that it was the one who shot down the Iranian plane tantamount to a reply to the Saudi request to the Soviet Union to support the complaint of the Gulf states?

After all this, it is important to take into consideration that information circulated, in some circles of the international oil companies indicates that in an attempt to prolong the war, Iran is planning to build a pipeline along the length of its borders and stretching beyond the area of the Strait of Hormuz and that this pipeline will cost \$3 billion.

Consequently, it is permissible to accept the interpretation saying that wars in the Middle East area will continue until the last drop of oil and that the area will then return to the zero point.

8498

CSO: 4404/512

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

OFFICIAL DETAILS AL-MUKALLA PORT ACTIVITY INCREASE

Aden 14 UKTUBAR in Arabic 26 Apr 84 p 2

[Text] The amount of freight arriving at the port of Al-Mukalla during the first quarter of 1984 was 84,959 tons and 831 kilos. Exports from the same port for the same period were 710 tons and 202 kilos. The plan for the same quarter called for 72,350 tons of imports and exports.

This information was revealed to 14 UKTUBAR by Ahmad Mahfuz Ba Salim, director of the National Shipping Company branch in the governorate of Hadramawt. He indicated that during the first quarter 38 ships arrived at al-Mukalla. They discharged 1,662,063 crates and took on 22,681 tons and 945 kilos of fuel (gasoline, diesel fuel, and kerosene). The shipping branch in Al-Mukalla has received two lighters with a capacity of 200 tons to be added to the 9 lighters that have been on hand for the past 10 years, each of which has a capacity of 75 tons, and three others each of which has a capacity of 200 tons. These last three are flat-decked and are used to transport heavy goods and building materials. These lighters have been added because of the growing import activity and the increased tonnage offloaded at the port of al-Mukalla. This increase is proven by the fact that the number of ships arriving at the port during 1983 was 133 from various countries, while in 1971-2, or 10 years ago, their number was only 41 and they discharged 42,106 tons, compared with 1982 when 206,230 tons were offloaded.

Ba Salim said: "The revenues of the Shipping Company branch for 1983 came to 1,669,063 dinars, according to the final statements of account. At the same time the branch's expenditures were 930,068 dinars, a net surplus of 738,996 dinars."

Perhaps the well-regulated offloading of cargo in the port, which is on the order of 1000 tons per day, is due to the role played by the coordinating committee, chaired the comrade secretary of the bureau of organization in the labor council of the governorate and the members of the agencies connected with the loading and offloading activity in the port. The committee meets twice a week and concerns itself with port activity and solving of any problems that may arise. The coordinating committee has had a role in the rapid unloading of ships, and thereby the Foreign Trade Company has avoided paying heavy demurrage charges to shipowners as a result of port delay--charges that run from 2,500 to 4,000 U.S. dollars. The company was saved from paying such charges in 1983 in particular.

The improvement that the port has witnessed recently in offloading operations has resulted also from the immediate removal of provisions from the pier to the Domestic Trade Company's warehouses in al-Mukalla, which have extensive storage capacity. Consequently there has been a decline in cases of damage and loss and much expense has been saved.

Ba Salim thinks that when the first stage of the new port of al-Mukalla in the Khalaf region is completed in March 1985 the shifting of activity to it will make loading and offloading matters easier for the shipping company branch, since that does not fall under its jurisdiction.

He expressed his satisfaction with the continuing follow-up on port activity by the officials in the secretariat of the party organization and the secretariat of the executive office of the local People's Council. He also expressed his wish to improve the condition of the port. At the same time he spoke appreciatively of the quarterly visits to Al-Mukalla by the comrade director general of the National Shipping Company in order to get caught up on the branch's affairs and attend to shortcomings and problems, if any. The most recent visit he made was on last March 28.

The branch of the National Shipping Company in the governorate of Hadramawt has 34 workers. Ten of them work on the tugs in two shifts.

12541

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PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

FRENCH SPONSORED SOLAR ENERGY PROJECT ELUCIDATED

Aden 14 UKTUBAR in Arabic 27 Apr 84 pp 4-5

[Text] Hasan 'Abbud al-' Amudi, the head of the training section in the General Electric Power Agency and director of the project for generating solar power in the Habil Jabr region, explains to us the ways in which this project can be of use to us.

Solar Power

[Question] When did consideration of this program begin?

[Answer] The project began within the framework of Franco-Yemeni cooperation, since the French produce equipment for exploiting solar energy and they desire to familiarize people with it with a view to possible sales in the future.

Within this framework they demonstrated their readiness to install electricity, or a model project for the uses of solar energy. They were looking for a school or a health center in a region far from electric power lines.

The General Electric Power Agency made a series of contacts in this matter and the choice fell on the health center belonging to the Ministry of Health in the Habil Jabr region after several field visits had been made to a number of places.

[Question] Why was this region chosen?

[Answer] Because this place was suitable owing to its size and its distance from the power lines. That is why this region was chosen.

[Question] Will the equipment used in this project be provided gratis and as a kind of publicity for the company that produced it?

[Answer] Yes. It will be gratis within the framework of the Franco-Yemeni cooperation.

The Yemeni side regards this project as an opportunity to gain more expertise and to carry out more research in this field.

#### Possibility for Exploitation

[Question] Does the use of solar power for a project such as this provide much energy?

[Answer] The plan is that all the needs of the health center will be met by solar power.

[Question] If this experiment succeeds, will it be expanded until it embraces places near power lines or will it be restricted to remote places?

[Answer] It would be premature to draw conclusions from this project. We regard the project as an exploratory one, hence we shall have the participation of the General Electric Power Agency, the College of Technology, and the Ministry of Health in it.

We have a research project from which we can deduce the possibility of expansion in the future.

Of course, the field of solar energy is one that is considered to be new, though at the same time it is an old one. A large amount of research has been done in this field. The aim is to investigate the possibility of using solar energy as a substitute for traditional sources of power such as diesel- and stream-driven plants.

This field is still under development and costs connected with solar power continue to fall. We believe that Democratic Yemen represents a suitable place for the uses of solar energy for the following reasons:

1. The character of the population of Democratic Yemen, for the population is distributed over remote regions and very large areas. This is a basic factor, for solar power is always superior when the population is widely scattered.
2. The availability of sunshine, and that in large amounts.
3. Something that we think is present, namely groundwater, that represents a basic resource for either agriculture or drinking. This part of the country represents an excellent place for the uses of solar power.

[Question] What is the connection here between the water and solar power?

[Answer] Very large experiments are being made based on the use of solar power for pumping groundwater from shallow wells. They have been so successful that it has been estimated that the use of solar power for pumping water to small farms in the rural regions is competitive in cost with other sources of power.

## Optimum Exploitation

[Question] What is the relationship between sparseness of population and the possibility of exploiting solar energy?

[Answer] The optimum use of solar energy is for meeting small requirements for electricity but in places far removed from others, since the sun itself is found everywhere.

The traditional sources of energy, such as coal and oil, that we use in the plants generate electricity in large quantities that are transmitted to different regions by means of overhead lines and underground cables.

The most important characteristic of solar energy is that it must be consumed in the place where it is generated. In other words, if I have a house in a village I generate the electricity at the house itself--on the roof or beside the house.

It is not considered to be economic for me to make a single plant for a whole city or even a whole village. Rather, it would be economic for each consuming unit to have its own plant or solar complex.

## Continuing Experiments

[Question] In other words, we cannot use a solar complex to serve a whole region?

[Answer] Experiments are continuing in this field. There are electric generating plants that have been built along those lines, but experts in all parts of the world are convinced that the optimum use of solar energy is for individual applications. We have this possibility because we have an extensive rural area, difficult roads, and difficulty in stringing electric power lines to such areas. We believe that with more study and the acquisition of more expertise we might find in the next few years that this is precisely the logical and reasonable solution to the problem of providing electricity to the rural areas and not just the cities.

## A Point of Weakness

[Question] Is the equipment used to exploit solar energy expensive?

[Answer] The one weak point in the exploitation of solar energy is its high cost relative to other, traditional sources. But experts expect that as time passes these costs will decline so that they will be competitive with all other sources of energy.

There is another point that we must not forget. It is that we import the equipment used in generating power in both cases and pay for it in hard currency. We believe that our evaluation of the project after a few months will enable us

to make an economic and technical estimate of this type of use. I hope that we shall be able to cooperate with the College of Technology to submit a report on this subject to the committees concerned.

[Question] What is the term set for the trial period?

[Answer] The trial period has been set at a full year. We shall be able to make a judgment after we have seen the results.

[Question] Has a start been made?

[Answer] A start has not yet been made, for the project is still in the planning stage. Agreement has been reached with the French to bring in the equipment. From now on they will do the designing and will select the equipment. We expect that work will begin within the next few months.

[Question] Will the French supervise the implementation of the project?

[Answer] The French will supervise it. While it is under way they will send their experts. They will also do the work of assembling and of finally putting the project into operation. Then they will turn the project over to the Yemenis. We do not think that the project will require the presence of an expert all year long, and all the various kinds of required maintenance are very simple.

The evaluation of the result of the test will be made in cooperation with the French.

#### The Price Differential

[Question] Will there be a big price differential between the generation of electricity by ordinary means and by solar means?

[Answer] We are importers in both cases. We do not have precise statistics, but we have a number of indicators and each case has to be studied on its own merits.

For example, in the city electricity has to be generated by diesel power because solar energy is not competitive in such a case.

But if I have a gasoline-driven pump midway on the road between al-Mukalla and Aden where there is no electricity, then it is better to use solar energy. We believe that questions such as this need more study, and we cannot give straight answers to questions of this kind. Instead, we must subject each case to the study of what is called the economic benefit in order to come up with a practical technical and economic decision to give the particulars of any one case.

#### Full Exploitation

[Question] When such equipment is used to supply a household will there be electric bills to pay?

[Answer] Any person who uses solar energy equipment will do so completely independently of the General Electric Power Agency, and that is the greatest feature. All he needs to do is to pay once for the equipment he uses, but over a period of time he will save the price of the equipment.

[Question] Were the French the only ones who made such an offer?

[Answer] Yes. They were the only ones who did so.

#### Different Kinds of Energy and the Possibility of Exploiting Them

[Question] What steps have been taken to make use of different kinds of energy in Yemen?

[Answer] Renewable energy is of many kinds, and solar energy is only one of the kinds of energy that can be used in democratic Yemen. We believe also that there is the possibility of using wind-generated energy in Democratic Yemen.

Some successful experiments have been conducted with the help of foreign firms. I believe that we should make a special effort to cooperate with foreign agencies to study these various sources of renewable energy such as solar power, wind power, and what they call "biogas." It is possible, particularly in the state cooperatives and farms, to construct units that will use such farm wastes as animal manure and sugar-cane and food refuse. This is done by fermenting these substances, which produces a kind of gas like that used in homes. This is now widespread in many countries of the world.

Some sources state that in People's China there are more than 2 million units of this kind. In the Arab Republic of Egypt they have begun to promote this kind of use in the rural parts of Egypt since it is an economic use in the case of the farms themselves and since otherwise there would be no use for this refuse.

In Democratic Yemen we consider that this project is the first practical step on the road to reaching a decision on this matter.

We believe that this field is wide open for investigation and it must be investigated further on a joint basis, and we refer in particular to the College of Technology and the General Electric Power Agency.

We believe that there are great possibilities for continuing investigations of this kind in order to achieve results that can benefit Yemen in the future.

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CSO: 4404/476

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

BRIEFS

FISH PRODUCTION PLAN--The 1984 plan for the fish sector aims at improving the level of supply, developing the growing fish processing industry, and promoting fish exports. In the light of these objectives the plan for the sector aims to increase production over the level actually achieved in 1982 and over that anticipated in 1983. From the information available about the size of the catch in 1983, the equipment provided, and the efficiency of the operation, it can be said that the implementation of the 1984 plan will be guaranteed by the improvement of the [one word illegible] side of the production, which will reach 76,200 tons, with an average growth of 6.1 percent of 1983. Of the total catch, 47,100 tons will be marketed locally in 1984 as against 44,800 tons in 1983. The average annual per capita consumption will reach 22.3 kilos in 1984 as against 21.8 kilos in 1983, an increase of 0.5 kilo or 2.3 percent. It should be mentioned that the total value of the fish and marine life harvested will come to 18.7 million dinars in 1984, while the total value was 16.9 million dinars in 1983. With regard to investment plans, 8.2 million dinars have been allotted to the fish sector. The object of this plan is to finance a number of fish projects and to purchase more equipment and gear so as to guarantee the advancement of the fish sector. [Text] [Aden SAWT AL-'UMMAL in Arabic 13 Apr 84 p 4]

12541

CSO: 4404/476

VISITING SIERRA LEONE OFFICIAL LEAVES TEHRAN

Tehran KEYHAN in Persian 14 Jun 84 p 3

[Interview with Sierra Leone Foreign Minister Abdulai Conteh on 13 Jun 84 in Tehran; interviewer not specified]

[Text] Abdulai Conteh, the foreign minister of Sierra Leone, who came to our country on Sunday for an official three-day visit, left Tehran yesterday morning and was seen off by Dr Velayati and several officials of the Ministry of Foreign Affairs.

During the visit of the foreign minister of Sierra Leone to Tehran, the ambassador of that country in London was appointed as the accredited ambassador of Sierra Leone to the Islamic Republic of Iran. At the end of the visit, a joint press communique was signed by the foreign ministers of both countries which will be published simultaneously in Tehran and Freetown.

In an interview before his departure from Tehran, Abdulai Conteh termed his second visit to Tehran a success and expressed his happiness at meeting again with the Iranian brothers and sisters and the authorities of the Islamic Republic. He said: In our talks, we succeeded in reviewing and studying the relations between the two countries and international issues. We were of the same mind on various issues. Referring to his past visit to Tehran and stressing the expansion of these relations, he added: Since then, many changes have occurred in the war in the region. In connection with these changes, the use of chemical weapons in the war against Iran, the bombing of residential areas by the Ba'thist regime of Iraq, and the attacks on the ships in the Persian Gulf, he said: New destructive weapons, such as chemical weapons, which are in violation of international laws and standards, have been used in the war, and ships in the Persian Gulf have been hit by missiles. These actions are without a doubt unforgivable crimes.

He also added: These events deeply affect the economy and the relations between the Third World countries and gives an excuse to foreign powers, especially the superpowers, to interfere in the internal affairs of these countries.

In conclusion, he expressed pleasure at the appointment of the accredited ambassador to Tehran who can facilitate relations between the two countries. He stressed the expansion of cultural and economic relations between the two countries.

Then, Dr Velayati, the minister of foreign affairs, said in an interview concerning the visit of Abdulai Conteh to Tehran:

This visit took place upon a prior invitation within the framework of the excellent relations between Iran and Sierra Leone, one of the countries of western Africa. The talks centered around the mutual relations which began two years ago and have expanded and deepened. During this period, numerous delegations have traveled between the two countries for political, economic, and cultural cooperation between Iran and Sierra Leone.

Referring to the recent talks, the foreign minister said: In these talks, relations between the two countries, the issues of the Middle East and the Persian Gulf, the issues of Africa, international issues, the conspiracies of oppression, the issues of Palestine and Lebanon, and the Iran-Iraq war were subjects of discussion.

Concerning the accredited ambassador of Sierra Leone to Tehran, who is stationed in London, he said: Because of economic and financial limitations, our country has a limited number of ambassadors around the world. In this area, apparently only one or two countries have ambassadors. The appointment of an ambassador to Tehran shows the importance that Sierra Leone places on its relations with Iran.

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CSO: 4640/299

SIERRA LEONE, IRAN ISSUE JOINT COMMUNIQUE

Tehran KEYHAN in Persian 14 Jun 84 p 3

[Text] At the end of the official visit of the foreign minister of Sierra Leone to our country, a joint communique was issued by the foreign ministers of the two countries yesterday afternoon. In this communique, both sides announced their shock at the missile attack on Dezful which took place a few hours before the official time proposed by the UN secretary general for the agreement between both sides not to bomb residential areas to go into effect. The Iranian party interpreted this action as a lack of sincere intent on the part of the regime of Iraq and believes, therefore, that it has no recourse but to continue the war until its just conditions are met.

The Sierra Leone party believes that the events of the Persian Gulf cause the political and economic disunity of the Third World and expressed hope that the war will soon reach positive results. Both sides condemned the missile attacks on civilian areas, the pollution of the environment in the Persian Gulf, and the use of chemical bombs in this war, which goes completely against Islamic and humane principles and international laws. Both sides condemned the continued attacks on commercial and oil ships in the Persian Gulf, which have been perpetrated in an attempt to internationalize the war and bring the superpowers to this region. They emphasized the preservation of security for shipping by the Persian Gulf countries. Condemning the repeated aggression and crimes of the Zionist regime against the oppressed nation of Lebanon, both sides demanded an end to these monstrous actions. Both sides also emphasized the necessity for the unity of the Muslim nations to fight imperialism and Zionism and called for the return of all the lands occupied by the Zionist regime to their original owners and the return of the Palestinian people to their homeland. Both sides condemned the racist policies of

South Africa and the crimes and aggression of this regime in regards to the oppressed nations of Africa, especially the countries on the front lines, and called for the unity of the African people to fight against the aggression of the imperialists, the Zionists, and the racist regime of South Africa.

Both sides expressed their concern over the situation in Chad, demanding the exit of all foreign forces from that country and that the nation of Chad be allowed to determine its own destiny.

Both sides declared their support for the resolution of the OAU concerning the Sahara and demanded the expedition of its implementation.

Both sides emphasized the independence of the non-aligned movement and expressed concern over the influence of the superpowers over this movement which jeopardizes its unity.

Both sides condemned the internal interference of the superpowers in various areas of the world, which conflicts with the interests of the Third World and endangers world peace and international security.

Both sides emphasized the necessity for the improvement of relations among the Third World countries in order to achieve complete political, cultural, and economic independence, considering this the only way to attain self-sufficiency and true independence and to preserve and benefit from the wealth of these countries in the interests of their nations.

Both sides expressed dismay concerning the actions by some of the countries to establish or renew relations with Israel and asked all the non-aligned countries to seriously resist the pressures imposed to establish and renew relations with Israel.

Both sides expressed their deep concern over the situation in Afghanistan and reemphasized the necessity of the unconditional exit of all the foreign occupying forces in this country to enable this Muslim nation to determine its own destiny.

Both sides condemned the military interference in Latin America and demanded the exit of all foreign forces from the countries of that region.

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CSO: 4640/299

ROADS, DOCKS, AIRPORTS CONSTRUCTION, EXPANSION ANNOUNCED

Tehran KEYHAN in Persian 3 Jun 84 p 3

[Article: "Minister of Roads and Transportation Announces Plans for Road Construction, Expansion of Shahid-e Beheshti Docks, and the Country's Airports in the Current Year"]

[Text] Mashhad - The quantity of freight unloaded at Chabahar soon increase from one million tons to four million tons a year with the utilization of the five docks at Bandar-e Shahid-e Beheshti, and this growth will reach 9 million tons with the use of three work shifts.

Engineer Nezhad-Hoseyniyan, Minister of Roads and Transportation, who had come to Khorasan to inspect and study activities completed in the districts of Tehran, Sabzevar, Neyshabur and Mashhad, announced this in an interview with the ISLAMIC REPUBLIC NEWS SERVICE. He said: At the present time four docks at Bandar-e Shahid-e Beheshti of Chabahar are actively unloading and loading the freight of 15- to 20-thousand ton ships. Every day each ship at this port unloads up to 3,000 tons of grains such as wheat, rice, barley, and rice, and up to 500 tons of general packaged goods. He added: At the present time, construction work on the five docks, including the port sea wall, has been completed, and with the completion of the construction work on warehouses and the environmental construction, utilization of the five docks will begin. With reference to the Ministry of Roads and Transportation's development credit in the current year, he said: This ministry's development credit for this year is more than 125 billion rials. Of this amount, 28 billion rials are for the development and expansion for the Islamic Republic's railroads, 25 billion rials are for building and expanding the country's ports, seven billion rials are for the Bandar-e Shahid-e Beheshti project of Chabahar, around three billion rials are for expanding the country's airports, 27 billion rials are for development credit to the provincial administrations, and 45 billion rials are allocated for national road construction. Out of the latter figure, 18.5 billion rials are for the construction of main roads, 12 billion rials are for the improvement the national highway system, 7 billion 290 million rials are for the construction and improvement of provincial secondary roads, 2 billion 700 million rials are for the construction of secondary roads, and the remainder has been allocated for freight.

He pointed out that the number of passengers on domestic flights was 50 percent higher last year than prior to the revolution. He said:

In the year 1362 [21 Mar 1983 - 20 Mar 1984] more than 4,069,000 passengers were carried on Islamic Republic Air's domestic and foreign flights; this is a 61 percent increase over the previous year.

He added: Of this number, 3,571,000 people flew on scheduled flights, special flights, and to the Sacred House of God; the rest traveled on chartered passenger flights and rental flights. Domestic flights increased 50 percent over the year 1356 [21 Mar 1977 - 20 Mar 1978].

Engineer Nezhad-Hoseyniyan discussed the expansion of the railroads of the Islamic Republic of Iran. He said: The Islamic Republic's most important railroad project is the construction of the Bafeq railroad to Bandar 'Abbas. A 730-kilometer rail line is being constructed in 15 sections.

The second railroad project is the construction of the Ahvaz - Bandar-e Imam Khomeyni railroad line; it will be built as two lines. The third railroad plan is the Tehran - Qom line. Due to heavy traffic, the Qom line will be built as two lines, and it will go into operation soon.

The Minister of Roads and Transportation referred to the fact that construction began in the country last year on 3,600 kilometers of main roads. He said:

One of the important projects under construction is the road from Tehran to Semnan and Sabzevar, and the road from Nishabor to Mashhad, totaling 925 kilometers, being constructed in 15 sections.

9310

CSO: 4640/286

## IRAN

### CONDITIONS FOR PRISONERS AMNESTY ANNOUNCED

Tehran KEYHAN in Persian 4 Jun 84 p 3

[Article: "With the Imam of the Nation's Agreement, Regulations and Conditions for Prisoner Amnesty and Pardon Throughout the Country Announced by the Chief Justice of the Supreme Court"]

[Text] Imam Khomeyni, leader of the revolution and founder of the Islamic Republic of Iran, has accepted Supreme Court Chief Justice Mosavi Ardebili's proposal to grant amnesty to a group of prisoners on the occasion of God's Day, 15 Khordad [5 June].

On the basis of this proposal, all those convicted by the public Islamic revolutionary courts and the military courts whose convictions were issued and finalized before 5 June 1984 and were sentenced to incur penalties such as imprisonment and cash fines will be pardoned, subject to certain conditions, on the occasion of the 22nd anniversary of God's Day, 15 Khordad [5 June 1963], the beginning of the Iranian Islamic movement.

The text of the guidelines issued by the Chief Justice of the Supreme Court in this regard to all the public Islamic revolutionary and military courts follows below.

On the occasion of the anniversary of God's day, 5 June, of pardons and sentence reductions will be granted to all convicts whose convictions were finalized in the public revolutionary and military courts before 5/3/63 [5 June 1984], whether they are now in prison or have not yet been sent to prison, subject to the following conditions.

#### Part One: Persons included in the amnesty

- 1 - Sentences of up to six months' imprisonment are commuted to two-year suspended sentences.
- 2 - Sentences of up to one year's imprisonment, provided that one-third of the time has been served, are commuted to two-year suspended sentences.
- 3 - Sentences of up to five years' imprisonment, provided that one-third of the time has been served, are commuted to three-year suspended sentences.

4 - Sentences of up to ten years' imprisonment, provided that one-fourth of the time has been served, are commuted to four-year suspended sentences.

5 - Sentences of ten years' imprisonment or more, provided that one-fifth of the time has been served, are commuted to five-year suspended sentences.

6 - Sentences of life imprisonment are commuted to fifteen-year sentences.

7 - The penalties for those sentenced to be flogged are commuted to two-year suspended sentences.

A. Convicts who have been granted amnesty only once before are included in this amnesty.

B. Those sentenced to pay cash fines or penalties of up to 15,000 rials in the public courts and 15,000 rials or more by a religious magistrate who are now in prison due to non-payment, in the event that they submit an agreement to pay or in the event that they are destitute and prove their destitution, are released; if the fines or penalties are in addition to imprisonment, their imprisonment is subject to the above conditions.

C. In all cases, if there is a plaintiff or [illegible] involved, his satisfaction must be obtained.

D. Those sentenced to house arrest of up to six months are pardoned. House arrests of more than six months, provided that one-third of the time has been served, and provided that their release will not result in a disturbance, are commuted to two-year suspended sentences.

E. Convicts more than 60 years of age who are too weak to endure imprisonment, with testimony from a legal physician or his representative and the court's approval, are released from prison. In the event that the imprisonment is in addition to a cash penalty, the conditions under (B.) above apply.

F. In all of the instances named above where the remainder of a sentence becomes a suspended sentence, the sentencing court will obtain the appropriate surety (bail, bond, guarantee).

G. It must be evident to the court that prison has had its effect on them, and that they are repentant.

H. All convicts who meet the conditions and limits set in this edict, whenever the stipulations of paragraph (C.) are met, are covered by this edict.

I. The provisions of this edict apply only to those who meet its conditions by the end of the month of Shahrivar [22 Aug].

J. Convicted drug addicts are included in the provisions of this edict if they have quit their addiction, subject to testimony from the rehabilitation center, or if they are in prison and not in a rehabilitation center, testimony from a legal physician and the approval of the court.

Part Two: The crimes below are excepted from the amnesty

1 - Embezzlement and Bribe-taking in excess of 500 thousand rials, illegal expenditure of public funds, or plundering of the Muslim treasury.

2 - Armed robbery, highway robbery, and theft with the aggravating elements in public law articles 222, 223, and 224.

3 - Fraud and treason.

4 - Violent rape.

5 - Importers, manufacturers, and dealers of up to 5 grams of narcotics and up to 50 grams of opiates.

6 - The crimes of counterrevolutionary minigroups (combatants and corrupt elements), except simple supporters who have repented and whose repentance has been confirmed by the court and the religious magistrate, and persons under the influence of spies.

7 - Muslims whose release from prison, in the view of the court, would create a public disturbance and generate a pessimistic atmosphere.

8 - This edict will be published in the media for its official distribution. All public, revolutionary, and military courts must grant amnesty to those who meet the provisions of this edict and send the results as soon as possible to the Office of Amnesty and Pardons.

'Abd al-Karim Musavi Ardebili  
Chief Justice, Supreme Court

9310

CSO: 4640/287

PILGRIMAGE TO BE USED FOR PRISONERS REHABILITATION

Tehran KAYHAN INTERNATIONAL in English 19 Jun 84 p 2

[Text] Tehran, June 18 (IRNA)--Eligible prisoners will be allowed to go to holy Mecca and perform Haji pilgrimage, said the head of the Supervising Council of State Prisons, Mohammad Taqi Moghisi, here today.

The prisoners will be allowed to make the trip after providing the bail required by the courts and having secured permissions of the wardens, he added.

He further told IRNA that through formation of the Supervising Council of the Prisons and also its cooperation with the Society for Protection of Prisoners and the revolutionary prosecutor offices, prisons have been turned into Islamic training centers.

In the Islamic Republic of Iran prisons are like training centers because they undertake the spiritual and moral rehabilitation of inmates.

They also promote strengthening of human relations. A proof to this, he said, was allowing the inmates to take leave from prisons, letting them participate in religious ceremonies including the Friday prayers and attending ceremonies in Behesht-e Zahra cemetery, without being escorted.

He once again reiterated that any prisoner who could teach 56 other prisoners to read and write his name would be given to the Pardon Commission making him eligible for pardon.

CSO: 4600/634

VARIOUS PROJECTS IMPLEMENTED IN FARS

Tehran KAYHAN INTERNATIONAL in English 19 Jun 84 p 2

[Text] Shiraz, June 18 (IRNA)--A Construction Jihad official of Jahrom, Fars Province said today that 163 development projects with a credit of \$11.3m had been implemented in Jahrom and its nearby villages since the establishment of Construction Jihad five years ago. They include water, electrification, road-building, technical and industrial projects.

Among the projects already completed is a sandmill which to date has produced over 210,000 cubic meters of fine sand for construction operations. There is also a casting mill in the city which has produced 12,331 kilograms of various types of cast iron, aluminium and bronze spares for agricultural equipment. The Construction Jihad of the city has also significantly contributed to the battle fronts by building 35 kilometers for roads. It has sent various field vehicles to the battlefronts, and also donated 10 million rials in aid to the war fronts.

In other news a plan and budget organization official said in Bushehr today that about \$68m have been earmarked for 422 development projects in Bushehr Province this year. The province's current budget \$101m 106 of the said projects are to be implemented by the provincial health department and 85 projects will be implemented by a committee of the renovation of schools.

CSO: 4600/634

## BRIEFS

ELECTRICITY FOR LORESTAN VILLAGES--Khorramabad, June 17 (IRNA)--Around 12 villages in Lorestan Province western Iran were connected to the nationwide electricity network with a credit of Rials 33,840,000 (\$377,000). The Ministry of Energy, regional electric company and Construction Jihad of Lorestan Province cooperated in providing electricity to the province. Another report indicated that in the past Iranian year (ended March 21) 139 villages in the Khuzestan Province were connected to the electricity network by the Electricity Committee of the Construction Jihad of the province. [Text] [Tehran KAYHAN INTERNATIONAL in English 18 Jun 84 p 2]

CENTRAL PROVINCE DEVELOPMENT PROJECTS--Arak, Central Province, June 17 (IRNA)--The Construction Jihad of the Central Province would spend its Rials 1.5 billion (\$17.2m) credit for the implementation of 500 development projects in 1,200 villages this year. One of the members of the Jihad's Central Council in the Central Province told IRNA that priority on spending would be given to irrigation, agriculture and rural industry projects. He said, since the establishment of the Jihad in the province five years ago, 1,500 developmental projects had been completed in the rural areas. The Construction Jihad of the Central Province is also active in the reconstruction of villages in the vicinity of Hoveizeh, in Khuzestan Province, he added. He said, one of the most important projects it had underway in the war zones was the dredging of the Karkheh Noor river. So far 12 kms of the river have been dredged while 21 kms remained and said the final cost of the dredging is estimated at Rials 240 million (\$2.8m). [Text] [Tehran KAYHAN INTERNATIONAL in English 18 Jun 84 p 2]

AHVAZ IRRIGATION PROJECTS COMPLETED--Ahvaz, June 17 (IRNA)--Khuzestan Province's Construction Jihad had completed 36 irrigation projects, constructed some 28 bathrooms, and 9 clinics in villages of Khuzestan, in the past Iranian year (ended March 21). The Construction Jihad has also built 13 mosques, 113 kms of roads, twenty-seven kms long dams and dug 79 wells. [Text] [Tehran KAYHAN INTERNATIONAL in English 18 Jun 84]

BILLION FOR SISTAN-BALUCHESTAN--Zahedan, June 17 (IRNA)--During 1362 (March 1983-84), 90 educational projects were completed and put into use by the group for the development and expansion of schools in Sistan-Baluchestan Province. The group spent Rials 1.34 billion (\$15.4m) for the projects. In the current year the group's development credit is Rials 1.05 billion (\$12m) for the completion of educational projects remaining from last year and the implementation of new ones. [Text] [Tehran KAYHAN INTERNATIONAL in English 19 Jun 84 p 2]

## FINANCE MINISTER'S SPEECH ON 1984-1985 BUDGET

Karachi BUSINESS RECORDER in English 15 Jun 84 pp 2, 6

[Text]

The following is the text of Federal Finance Minister Ghulam Ishaq Khan's Budget speech:

It is a great pleasure for me to announce the Budget of the Government of Pakistan for the fiscal year 84-85. This is the first occasion in the history of Pakistan that a full year Budget of the Government is being presented in the Holy Month of Ramadhan. I pray to Allah that this Budget proves to be the instrument through which the blessings of this month are bestowed on the country and its economy throughout the year. The coming year has one additional significance. This would be the year during which the process of holding general elections in the country would be completed in accordance with the 12th August declaration of

President of Pakistan and the nation would enter a new era of representative political institutions.

The year 1983-84 was particularly difficult year for the economy of Pakistan. Agricultural production which had been recording prominent growth was persistently for the last six years was badly affected by climatic factors. Not only did the agricultural production fail to achieve predetermined targets but there was in fact a substantial decline in the total agricultural production compared to the preceding year. Despite this setback, by the Grace of God it was possible to make up the production deficits and maintain a steady advance towards long term economic goals on the basis of the cumulative economic strength gained and reserves built over the preceding six years. Just a few years back it would have been virtually impossible to face a crisis of this magnitude with such equanimity.

The impact of weather on the economy is an accepted fact of life for any agricultural country. In Pakistan also, the last six years witnessed fluctuations in the output of individual crops as a result of climatic changes. Yet in overall terms agricultural production maintained an average growth rate of 4.5 per cent per annum, under the powerful influence of supportive policies and effective implementation of agricultural development projects.

In this respect, the current fiscal year was of extraordinary nature. Excessive rains in the early part of the year followed by a long drought adversely affected both Rabi and Kharif crops. This peculiar combination of adverse weather and the consequent decline in total agricultural output, is a phenomenon which occurs once in ten or twelve years. It is possible to take precautionary measures to soften the impact of such a phenomenon but it is not possible to avoid such lean years altogether.

Cotton crop was the worst affected. Actual production is estimated at close to 3 million bales, against a target of 5.2 million bales. There was a decline of 37.5 per cent compared to the realised cotton crop of 4.8 million bales in 1982-83. Among the Kharif crops, rice also showed a decline of 2.2 per cent. The onion crop harvested in winter was also short. In the Rabi season, wheat production is estimated at 11.5 million tons against 12.3 million tons produced in 1982-83 showing a decline of 7 per cent.

Thus there was a negative growth of 4 per cent in the value added in agricultural sector, representing a sharp contrast against the positive

growth of 4.5 per cent per annum in the preceding year. This was the first year since 1974-75 recording a negative growth in agricultural output.

In order to contain the adverse effects of the decline in agricultural output on the economy, it was essential that industrial output should not be permitted to suffer from a shortage of raw materials. As soon as the magnitude of the damage to the cotton crop was realised, it was decided to ban the export of cotton. Physical exports were confined only to irrevocable contracts already finalised and the Cotton Export Corporation was instructed not to enter into any new commitment requiring export from the 1983-84 crop.

Additional measures were adopted to improve the supply of raw material to the cotton textile industry:

(a) In order to facilitate the import of cotton, sales tax and development surcharge payable on the import of cotton were removed. By the end of May 1984 licences of the value of Rs 1032 million had been issued for the import of cotton.

(b) Cotton Textile Mills were allowed to import limited quantity of viscous fibre and the import duty of Rs. 20 per kg on it was reduced to Rs. 5 per kg for such imports by the textile mills.

(c) Cotton Export Corporation is making arrangements to import cotton worth \$35 million under US assistance programme. Bulk of these imports are expected to arrive in Pakistan by July. These imports would play an important role in stabilizing cotton prices and in meeting the requirements of the textile mills during the closing months of the cotton season.

(d) Export incentive regime for the textile industry was re-shaped to focus the incentive effect on the high value-added items. The objective was that the shortfall in the availability of cotton should be made good by moving towards higher value-added products, the export of which would protect total export earnings. Accordingly the export rebate previously admissible on cotton yarn was removed altogether. The scheme of

special concessional loans for the export of cotton yarn was also abolished. This measure was intended to make sure that a large quantity of cotton yarn would be available within the country for the manufacture of cloth and other textile products and more of the cotton yarn would be exported after having been processed into such high value-added products.

As a result of this strategy, there was only a minor decline in the output of textile industry. It is estimated that by the end of the current fiscal year, cotton yarn products would reach the level of 440 million kilograms showing a decline of 4.3 per cent compared to last year. Against this, export of cotton yarn declined by 11.4 per cent. Thus, with the virtually maintained level of output of yarn and the decline in its exports, there was a significant increase in the output level of domestic industries based on cotton yarn. Further, it was possible to remove the difficulties faced by thousands of small units as a result of the increase in yarn prices. There was a substantial increase in the exports of cotton cloth, garments and other textile products. During the first 10 months of 1983-84 the export of cotton cloth registered an increase of 41.6 per cent compared to the same period last year.

While the cotton textile industry was directly affected by the reduction in the output of cotton, other industries continued to make rapid progress during the year. A hot-strip mill was added during the year in the Pakistan Steel Mills at Karachi and thus steel output has increased. The Steel Mills would be fully completed in the early part of next financial year. With the completion of 3 new cement factories the production of cement has risen from the level of 39 lac tons to 45 lac tons per annum. The production of polyester staple fibre has recorded an increase of 23.5 per cent. Chemical products are estimated to record an increase of 15 to 20 per cent. Moreover, there has been a substantial expansion in the engineering goods industry as a result of the increase in the production of steel and

special incentives provided to the engineering sector. Ready-made garments and leather products recorded a substantial increase due to the expanding demand in the international market. The manufacturing sector including both small and large scale manufactures has recorded a growth rate of 8 per cent. Despite the set back due to decline in cotton production, the industrial growth of 8 per cent indicates only a nominal shortfall from the 9 per cent target.

An important achievement in the minerals sector during the current year is the discovery of new gas and oil reserves. You would recall that while explaining the increase in the prices of gas, in my winding up Budget speech in the Majlis-e-Shoora, last year I had stated that it was the determined policy of the government that difference in the price of gas and oil should be narrowed by raising the prices of gas and the resources so raised are spent in completing new projects in the field of energy. In the 1983-84 Budget, the prices of gas were increased to bring them nearer to those of oil. Even then gas prices remained lower than oil prices. The resources raised through the increase in gas prices enabled the government to prepare an accelerated programme, which was included in the Annual Development Programme for 1983-84, to explore oil and gas sources and to exploit their discovered reserves. I am glad that our efforts have started yielding positive results during the current year.

29 new wells were spudded and 9 wells which were started earlier were completed in 1983-84. Of these 25 were in the private sector and 13 in the public sector. This level of activity extending to 38 wells in the oil and gas sector set a new record for the country. Normally in exploration of oil the expectation is for the success of one well out of 10. Pakistan's record has generally been better than the world average. On the basis of 127 exploratory wells which were drilled in more than 30 years up to 30th June, 1983, the record has been one successful well out of six. The year 1983-84, however, created a new record of success in the exploration of oil and gas.

During the year 10 exploratory wells were completed in all respects. Out of these 10 exploratory wells, by the grace of Almighty Allah, gas and oil has been struck in as many as six wells. These six wells are as follows:-

1. August 1983      Dakhni oil field
2. September, 1983      Leghari oil field
3. January, 1984      Golarchi oil field
4. February, 1984      Dhurnal oil field
5. May, 1984      Tando Alam oil field
6. May, 1984      Tajedi oil field

The production of oil which had increased from roughly 11,000 barrels per day in 1981-82 to around 13,000 BPD in 1982-83 started falling in the first few months of the current year because of the reduced flow in the existing wells which came down to a little more than 11,000 barrels per day. Since then there has been an increase in production, essentially on account of the new discoveries at Leghari and Dhurnal. The production in early June estimated at 17,500 barrels per day is expected to increase to 20,000 BPD early next year which would be almost double the level of 1981-82.

The production of gas has increased by 40 MMCFD. This increase has become possible due to the drilling of more wells in Pir Koh gas field and completion of the first phase of the pipeline.

Here I deem it necessary to explain that though increase in the production of gas and oil during the current year is an important phenomenon yet it is not sufficient to fully cater our requirements. The total consumption of energy from all the different sources in the country is estimated at 3 lac barrels of oil equivalent per day. Energy consumption is increasing every year at the rate of 29,000 barrels of oil equivalent a day. Despite recent increase in the production of oil, we would still have to import around one lac barrels a day. We have thus a long way to go to attain self-sufficiency.

The increase in the output of oil and gas, combined with satisfactory progress in the industrial field made it possible for the economy to overcome the impact of a sharp decline in agricultural output, and to register an increase of 4.5 per cent in gross domestic product during the fiscal year 1983-84. This growth rate was below the target fixed for the year and also lagged substantially behind the average growth of the economy during the preceding six years. It is, however, still a matter of some consolation that in one of the most difficult agricultural years, gross domestic product recorded an increase in excess of the rate of increase in popu-

lation. Though the rate of increase in per capita income declined, the trend of positive growth was maintained reflecting continuing resilience and dynamism in the economic

Every effort was made to protect the tempo of exports against the impact of the bad cotton crop. During the first 10 months of the current fiscal year total value of exports was \$2266.5 million. In the preceding year exports during the same period amounted to \$1942 million. Thus exports increased by 16.7 per cent in dollar terms and 23.1 per cent when measured in rupees. The export receipts during the whole year are expected to be \$2731 million.

The notable fact about exports was that while cotton exports registered a decline of 37 per cent, other exports registered an increase of 27 per cent largely based on the growth of non-traditional and new exports. The growth in non-traditional exports points to a permanent improvement in the export situation. A number of export based industries have been set up in the country which are making progress. Most of these are organized on relatively small scale. Certain new exports mainly wheat, chemical fertilizer and engineering manufactures, particularly cement and sugar plants, appeared as export items for the first time. Export is acquiring the status of a new tradition in Pakistani society and hundred of thousands of workers are engaged in this field. During 1983-84 considerable success was achieved in finding new markets for Pakistani

products. During the year 41 per cent of exports went to Islamic countries.

By contrast there was only 5 per cent increase in the dollar value of imports during the first 10 months of the fiscal year. These show an increase of 11.6 per cent in terms of rupees. The country has achieved self sufficiency in food and certain types of fertilizers and this has resulted in successful import substitution. Iron, steel and steel based items and various types of machinery are being produced in the country.

The prospects for improvement in trade balance have brightened. Home remittances more or less remained at the last year level. As a result deficit in the current account of balance of payments is estimated at \$1.0 billion which is 2.4 per cent of GNP. Foreign Exchange Reserves have declined by only \$200 million from the June, 1983 level to \$1,534 million in the first week of June, 1984. However, these reserves are sufficient to finance a little over 3 months' imports.

A major achievement in the monetary field has been the containment of monetary expansion. By the end of April this year monetary assets increased by only 7.7% compared to 21% during the corresponding period last year. This trend suggests the possibility of the rate of monetary expansion in real terms remaining below the growth rate of G.N.P. The level of Government borrowing for the budget has been reduced and it has been possible to retire considerable credit as a result of de-rating of

sugar and the consequential reduction of funds tied in its stocks. This not only helped in controlling monetary expansion but also in making increased credit allocation for the private sector.

By controlling monetary expansion and ensuring availability of essential consumer items, the rising trend of prices which had emerged during the early part of the year was checked. During the first five months of July to November, 1983, the Consumer Price Index showed an upward movement of 6.7%. This was alarming on an annual trend basis. Immediate measures were taken and supplies of potatoes, onions and other vegetables to the consumers were improved which arrested the rise in prices. The impact of the measures taken by the Government is reflected by the fact that the Consumer Price Index in April, 1984 showed an increase of only 6.4% over June, 1983. With the successful containment of monetary expansion, the rate of inflation is not expected to exceed 9% during the current year.

In the context of the price situation, it is noteworthy that there has been no increase in the prices of essential consumer items like wheat, atta and rice. As a matter of fact price of sugar came down in the market as compared to the previous years. The price of onions which in November and December last year had reached a record peak has come down to a level where Government had to seriously examine market intervention to support the price. Government has already decided to procure gram at the support price for the benefit of the growers.

Major increase in prices during the year was due to the rise in international prices of edible oil and tea. The price of edible oil which ranged between US \$400 to US \$500 per tone went up to US \$1000 to US \$1100 per ton. This inevitably resulted in steep increase in the cost of production of vegetable ghee. The price of vegetable ghee was raised, in August, 1983, from Rs. 10.80 per kilogram to Rs. 13.50 kilogram. In spite of this increase the Government had to spend Rs. 150 crore to subsidize the price of ghee.

The international supply of tea was seriously affected due to fall in the production of tea in China and Sri Lanka which are the two major exporters of tea. As a result the price of tea almost doubled in the international market. However the Government mobilized the cooperation of

the private sector to contain the increase in domestic tea price below the international level. The price of 250 grams of good quality tea increased from Rs. 8.70 in March, 1983 to Rs. 13.45 in May 1984.

The Government has always endeavoured to protect, as far as possible, the prices of essential commodities within the country from the rise and fall of prices in the international markets, although it is not possible to completely insulate internal prices against international fluctuations. The recent success in containing monetary expansion gives reason to hope that in the coming years inflation rate in Pakistan can be kept below the international level.

I have described the economic situation during the current financial year in some detail so that the apprehensions which inevitably accompany a fall in agricultural production should be dispelled. With the help of reserve stocks of essential commodities, foreign exchange reserves and the utilization of surplus productive capacity we have been able to not only maintain a reasonable rate of growth in the Gross National Product but also a healthy payments position and moderation in prices in an extremely trying year. I pray to Almighty Allah not to put the nation and the country through such an ordeal again.

While presenting the next year's budget we are confronted with a new international situation. The geopolitical situation around the country is changing rapidly with the unfortunate fratricidal war between the two Muslim countries threatening to escalate over a wider area. This situation can disrupt the supplies of oil with economic consequences for other raw material and their prices. Pakistan has close cultural and economic links with all the countries in that region and will have to be prepared to face any situation.

On the other hand the process of economic recovery is accelerating in the industrialized countries. This will provide new opportunities for our exports although the protectionist trends still persist in industrial countries and export from the less developed countries have limited access to their markets. This has also delayed the impact of international economic recovery on the situation in less developed countries.

The world economy is passing through a period of uncertainty due to large budgetary deficits in some industrial countries, rising rates of interest and violent fluctuations in the

exchange rates. In these circumstances, the formulation of economic policies and planning call for care and caution.

While moving with caution, our effort would be to maintain continuity in the process of economic growth. Our primary aim during the next financial year is to make up for the slow down in the rate of growth during 1983-84 and to ensure achievement of the production targets which could not be reached during the current financial year due to the vagaries of weather. The targets set by us may appear difficult when compared with the current year's depressed yield but the realism behind them would be evident if these are measured against the actual production levels already reached in 1982-83. For instance target for the production of wheat has been fixed at 13 million tons. This attempts an increase of 6% only over the actual production of 1982-83. Similarly the target of 5 million bales of cotton is 4% less than the target for 1983-84. Based on these targets we expect a growth of 10% in agricultural production.

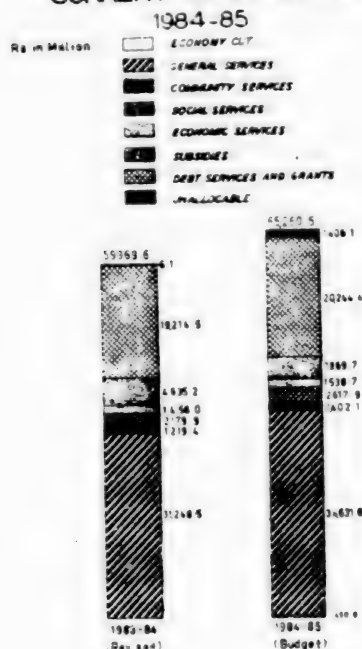
Based on detailed targets for individual industries we hope to maintain, during the next year, a growth rate of 9% for the manufacturing sector. The Pakistan Steel Mill is expected to be completed by October, 1985 which will usher in a new era of progress towards basic industries and would be an important mile stone on the way to industrial autarky in Pakistan.

Two new cement plants would be commissioned during the year. One of these would be in the private sector. Finally the Government policy of permitting private investment in cement industry can be seen as producing concrete results. The combined efforts of the public and the private sectors would soon overcome the shortage of cement in the country.

Taking into account the targets fixed for the agricultural and industrial sectors, we hope to achieve growth of 8.5% in the G.D.P. and 7.5% in the G.N.P. during the next year.

A critical element of our economic policies during the next financial year relates to the expansion of our exports. Our objective is to increase our exports to \$3314 million in 1984-85 against exports of \$2731 during 1983-84. We are fully conscious of the effort which is required for achieving this by no means a modest target. With the global recovery of prices Pakistan's imports may start rising.

## CURRENT EXPENDITURE



raising the total import bill. At the same time the remittances are not projected to show any growth next year. The balance of payment situation makes it imperative that a major thrust is made on the export front.

I would now turn towards the trends in investment and saving and discuss the development programme for the next financial year.

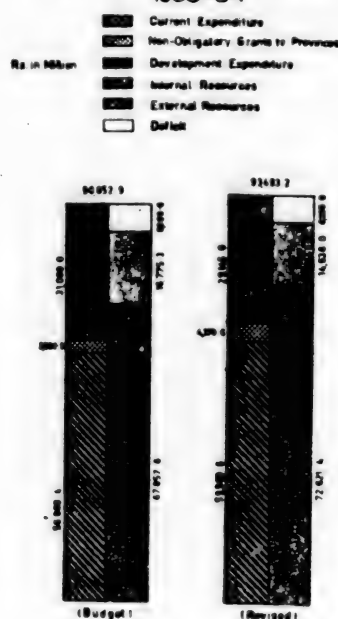
The present Government had, at the very outset, declared the policy of establishing a mixed economy in Pakistan in which the responsibility or the right for investment would not rest with Government alone. Rather the private sector and the public sector would both assume this responsibility jointly. It was also explained in the 5th Five Year Plan that the Government will give priority to the completion of on-going industrial projects in the public sector and had no intention of taking up new large industrial projects after the on-going ones have been completed. The 5th Five Year Plan had also promised introduction of measures by the Government to remove genuine difficulties of the private sector and to create an environment conducive to its reactivation so that when, by the end of the Plan period, the ongoing public sector projects have been completed the private sector can fill the gap created by reduction in public sector investment.

During the 5th Plan the Private Sector made marked progress in investment in Industry. Sanctions

issued to the Private Sector for industrial investment amounted to Rs. 46,000 million and its estimated that 50% of these sanctions were actually realized. Installation of some large projects for the production of cement, fertilizer, engineering goods and chemicals was also taken in hand.

A marked increase in private sector

## BUDGETARY POSITION



investment is an important element of our policies for the 6th Five Year Plan. The concomitant effort is that a larger proportion of the private sector investment should flow into the industrial sector. The total investment target by the private sector for the 6th Five Year Plan is Rs. 200 billion out of which investment of the order of Rs 62 billion is required to be made in the industrial sector.

The following investment targets have been set in the 6th Five Year Plan:

(i) Share of industrial investment in the GNP is to be increased from 3.2% to 4.4%.

(ii) As against its estimated share of 40% in industrial investment at the beginning of the Plan period, the share of the private sector is to be raised to 62% by the end of the Plan period.

(iii) Share of private industrial investment in the GNP is planned to be increased from 1.3% to 3%.

Review of the investment made during the course of the year shows that the private sector responding to policies framed during the last six years and to the incentives offered to

it has started playing a meaningful role in our economic development. Compared to the previous year, investment by the private sector is estimated to have increased by 21% during the current financial year. Adjusted for the effect of increase in prices, there has been an increase of 14% in investment in real terms. The share of industrial investments in the overall investment has also gone up. The growing interest of the private sector in investment is reflected in the rising trend in the share prices on the Stock Exchange. The General Index of Share Prices rose from 185.32 in June 1983 to 258.1 in May, 1984 which is a record.

The growth rate of private sector investment is expected to be higher during the next year. The Annual Plan target for growth in private sector investment is 28% while the share of private sector in the industrial investment is expected at 29%.

As I have stated before, the parameters of government's basic policy towards private sector and industrial investment have been clearly enunciated during the early years of this Government. In the light of consultations with the private sector and after a detailed analysis of the issues involved, a number of measures have been worked out and announced from time to time. The effects of these measures were also carefully studied and additional measures were devised as and when needed.

Now that a proper and favourable climate has been created as a result of these pragmatic measures, it seems appropriate that a comprehensive and internally consistent policy should be announced which should at one glance provide complete guidance to the businessmen interested in making industrial investment. There is no doubt that this is a policy of the same Government which had adopted the programme of encouraging private sector during the last six years. The present policy therefore does of basically constitute granting an entirely new charter. The contours of this policy are quite familiar to the business community. However, while undertaking the integration of the policies pursued so far, thus opportunity has also been used to fill some of the gaps and strengthen specific measures. In addition, procedure for sanctioning of industries has been further simplified and concessions for key industries have been enhanced. Special measures have also been incorporated in the new policy to encourage industrialisation in the less

developed areas, to attract foreign investment and to develop small scale industries.

A detailed Industrial Policy Statement is being issued with the budget as a separate document. An Industrial Investment Schedule for Sixth Five Year Plan will also be issued by the end of this month. As you would be able to see from Part II of my speech, measures are being initiated immediately to give effect to the major provisions of the industrial policy.

Let me, at this stage explain some of the broad features of the Industrial Policy.

We have once again reiterated our resolve in the Industrial Policy Statement that Government has no intention to nationalise any private sector industries in future. Government will continue to pursue a pattern of mixed economy with the private and public sector complementing and reinforcing the role of each other. The private sector will, however, shoulder the major responsibility for future industrialisation.

The public sector has acquired a special place in industries like Steel, Fertilizer, Petroleum Refining, Petro-Chemicals and basic industries including automotive equipment and will continue to play its part in balancing and modernisation of these industries. But this field will by no means be deemed to be the exclusive preserve of the public sector; government would welcome proposals of private sector for investment in these industries which are backed by proper feasibility studies and viable financing plans.

The Government will also continue to encourage mutual collaboration between the public and private sectors for the establishment of large industrial projects. In appropriate cases management of such joint ventures could also be entrusted to the private sector.

It is the policy of the government that, as far as possible, industrial units should be freed from the requirement of prior sanction so that industrialists fully accept the responsibility for their own decision. However, it is considered necessary in cases of major projects of national importance or in such basic industries where government's pricing policies are involved, that these are established with government's full knowledge and involvement in the decision. Such large projects have implications for the entire economy and certain measures of economic significance are required to support them. The requirement of

prior sanction for such projects should not be regarded as any restriction on investment decisions. In fact this is part of the joint deliberation for such projects which is a pre-requisite for their smooth progress.

It has, therefore, been decided that for future investment, government sanction will be required for setting up only those projects which fall in the following categories:

(a) Such industries which need scrutiny from the point of view of national security, religious or social objectives, regulation of prices and over capacity and other national objectives.

(b) Industries which require a comprehensive programme of assembly-line manufacture so that indigenization could be accomplished within the set target and pre-determined period.

(c) Projects involving private foreign investment.

(d) Such large projects which are likely to cost Rs. 300 million and above and those requiring cash foreign exchange of more than Rs 50 million from country's own foreign exchange reserves.

(e) Industrial projects based on import of second hand machinery except those established as Non Repatriable Investment.

(f) Projects in which more than 60 per cent of the raw materials is importable provided the value of such imports exceeds 20 per cent of the total investment in fixed assets.

Foreign private investment will continue to be welcome. It will be specially encouraged where it takes the form of joint equity participation between Pakistani and foreign investors in basic manufacture involving advanced technology.

Standard terms for obtaining foreign private loans and suppliers' credit have been prescribed. Similarly standard terms for technical fee and royalty agreements have also been laid down. All agreements conforming to the standard terms will be considered automatically approved after being registered with the State Bank of Pakistan. The Pay-As-You-Earn Scheme will also remain in force and agreements entered under it will not require any specific approval. They will, however, require to be got registered with Investment Promotion Bureau and State Bank of Pakistan.

Thus the bulk of the industrial investment activity will be free from sanctioning procedures. In cases where sanctions are still required, the concerned agencies will ensure that ordinarily the final decision is com-

municated within a period of three months.

A permanent Industrial Policy Committee is being established to keep the implementation of the new industrial policy under constant review. The Federal Minister for Industries will be the Chairman of this Committee. This Committee will monitor the progress of implementation of sanctioned projects, identify the constraints and difficulties and suggest ways and means for their removal. In order to quicken the pace of industrialisation the industrial policy also contains measures for provision of infrastructure, re-organisation of procedures for industrial credit and additional tax incentives. These cannot, however, be discussed here in detail for want of time.

Industrial estates will be established for provision of basic infrastructure; it will be the responsibility of the concerned departments to provide basic facilities in these estates. Private sector will also be provided incentives to establish industrial estates. Industrial estates set up in less developed areas will be exempt from income-tax.

A permanent cell has been established to rationalize effective protection to local industry. This cell will work under the supervision of Principal Economic Adviser of the Ministry of Finance. The policy of granting industrial incentives will continue and will be reviewed from time to time for such changes as may be considered necessary.

In order to exercise continuous supervision over the system of industrial credit, the State Bank of Pakistan will set up an Industrial Credit Department on the lines of its Agricultural Credit Department. An Advisory Committee on Industrial Credit will also be established which will examine the problems in the field of industrial credit and provide continuity for policy improvement.

To extend industrialisation to the far flung and backward regions of the country, a number of growth points will be identified for concentrating basic facilities and infrastructure.

In addition, as a part of its location policy, government will be willing to compensate on 'case to case basis', the projects of basic importance for the higher cost of location in the backward areas.

A new institution called the Regional Development Finance Corporation has been set up to identify viable areas of investment in the less developed regions and to arrange finances for them.

High technology industries like computers and solar energy have been given a pioneer status and on this basis special incentives have been announced for them. Next in importance are the agro-based industries. Development of basic capital goods and agro-based industries is the corner-stone of this industrial policy.

Alongwith the provision of these concessions, it is necessary to clarify that our real objective is to provide a strong industrial base in the country. This objective cannot be achieved by manufacturing consumer goods of daily use or by a simple processing of raw materials. We shall have to concentrate on basic and high technology industries. A key element of the policy of this government is to develop such industries. Most of the incentives have also been worked out to achieve this objective. In fact this is the central point of every policy in this field.

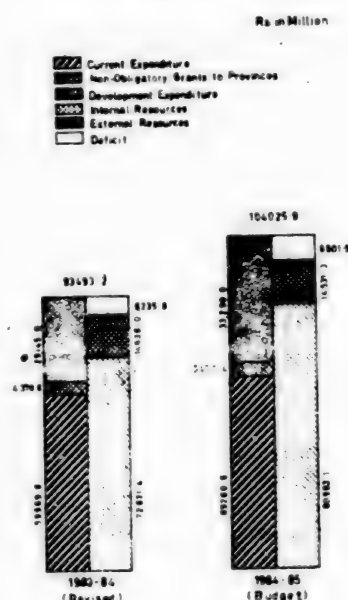
I trust that, with the announcement of this policy, any lingering doubt will be completely dispelled and there will be the beginning of a new industrial revolution in the country for which a favourable climate has been created.

Alongwith the issue of fresh industrial policy a new legal framework is being provided to the corporate sector.

The Companies Act of 1913 had become out-dated in several respects. A new Company Law has, therefore, been prepared in the light of the views of a cross-section of the people including the general public, the trade unions, legal fraternity, business community and professional organizations. The new Law takes into account the country's orientation towards achieving our developmental objectives in an Islamic framework, experience of corporate working in the subcontinent, other developed and developing countries and the modern trends in corporate regulation. The Law which had been approved by the Federal Government some time back is being brought on the statute book and will be enforced in a phased manner.

The provisions of the new Law aim at promotion of ethical behaviour, sound traditions of accountability and self-discipline in the corporate sector. The new Law provides for adequate disclosure to encourage responsible

## BUDGETARY POSITION 1984-85



management behaviour and protect investors. To facilitate the task of the corporate sector, regulatory measures which are difficult to enforce or tend to fetter the honest entrepreneur unduly, have been avoided. The Law also provides for more positive role of the judicial and administrative organs through timely cognizance of excesses or lapses of the management, auditors and liquidators with built-in safeguards against arbitrary procedures.

It is hoped that this step will further advance the objectives of Government's declared policy of improving the investment climate and providing opportunities for the growth of a healthy private sector geared to the service of the economy with minimum statutory supervision.

Policy for financing public sector investment is implemented through the Annual Plans prepared in the light of Five Year Plans. The Annual Plan includes (a) Annual Development Programme for which resources are provided through Government budget and (b) the programme of public sector corporations which is financed by them from their own resources.

An Annual Plan has been prepared in the light of the priorities laid down in the Sixth Five Year Plan for the next financial year which is also the second year of the Plan. An amount of Rs. 33,290 million has been earmarked for Public Sector Development Programme. This amount is

based on an increase of 7% over the current year's original ADP of 31,000 million. The estimates of programme actually implemented during the current year is Rs. 29,400 million. As compared to this the programme for the next year indicates an additional effort of 14%. In addition public sector corporations will implement a development programme of Rs. 10,000 million on self-financing basis which is about 20% higher than the estimated implementation of Rs. 8,300 million during the current year.

Thus, there will be an increase of 15.6% in the overall investment and expenditure on development programme in the public sector. This increase will help accelerate the pace of development of the physical infrastructure.

The amount provided for the programme for 1984-85, however, falls short of the estimate contained in the Sixth Five Year Plan.

More than increasing the investment in the public sector, the government is giving attention to the nature of sources from which funds are obtained for such investment. Reducing dependence on deficit financing to the minimum is extremely important to control inflationary pressures. In 1983-84 reliance on deficit financing will be to the extent of Rs. 6236 million only which is equal to 1.4% of GNP. This amount will be further reduced during the next financial year to 1.1% of GNP only.

Similarly dependence on foreign loans is being reduced. During 1983-84 a sum of Rs. 14,636 million was obtained through external assistance and loans. As against this a sum of Rs. 9929 million has been used in repayment of loans and debt servicing. In this way net external flow amounted to Rs. 4707 million against a total financing of Rs. 29,150 million. The whole of the remaining amount was mobilized from Pakistan's own resources. Similarly in 1984-85 against a total ADP financing of 33,290 million the net foreign inflow after accounting for repayment and interest, is estimated at 4638 million. In other words 86% of investment will be financed through Pakistan's own resources. Thus there has been considerable progress towards attaining self-sufficiency in arranging finances and dependence on deficit financing has been reduced. This is an important facet of financial management and to keep this intact it is necessary that rate of increase in development expenditure is kept at a level which the domestic economy can easily sup-

port. Side by side it is also necessary to try that, notwithstanding the shortfall in financing, targets are attained through early completion of all the projects at a lower cost.

In fact, financing of development schemes is a continuous process and to measure it on the scale of provisions made in Annual Development Programme does not fully reflect the reality. Government has not only to provide money for new projects it has also to service debts and repay loans and meet current expenditure on the completed projects. The size of development programme for 1983-84 is Rs. 29,150 million. Its ratio to GNP is 6.3% but during the same year an amount of Rs. 9929 million will be required to service the loans which have been obtained to finance the development programmes of the past years. These payments are also part of the expenditure on development programme. Similarly current expenditure on the Health and Education sector alone is higher by Rs. 1300 million compared to 1982-83. Effect of development programmes on current expenditure is much higher. However, even if only these expenditures are considered a part of the development programme, the ratio of development expenditure to GNP is 8.7%.

Out of a total development programme of Rs. 33,290 million in the budget for 1984-85, Rs. 7300 million have been kept for the Provincial programmes. The Federal programme will be of the order of Rs. 25,990 million.

Most of the increase in the Federal Government Programme is on account of energy sector. Energy is such a basic need that the entire economy depends on it. This sector has, therefore, been rightly given high priority. Total increase in Federal Development Programme for the next year over current year's implemented programme is Rs. 3750 million of which Rs. 3020 million i.e. 80% has been kept for speedy implementation of development schemes in the energy sector. One-third of the Annual Development Programme has been earmarked for energy projects and further increase in this allocation will be required in future years. These programmes include generation and transmission of electricity and oil and gas projects.

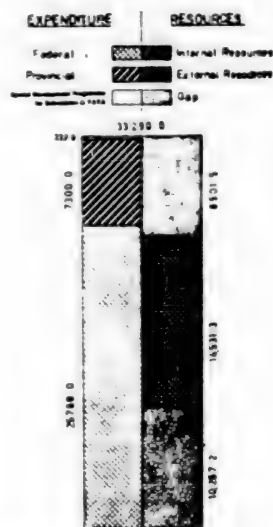
An amount of Rs. 7760 has been earmarked for electricity which is Rs. 1830 million higher than the programme estimated to have been implemented last year. Most of this

amount will be spent on the expansion of electricity generation and transmission system of WAPDA. Rs. 4250 will be spent on generation projects and Rs. 3510 are means for transmission, distribution and other programmes. Major projects for generation of energy included in the next year's Development Programme and the amounts appropriated for them are given below:-

|   | (Rs in Million) |
|---|-----------------|
| (i) Tarbela Units 9 & 10                                      | 412             |
| (ii) 450 Megawatt gas turbine and steam station unit at Guddu | 1650            |
| (iii) Guddu Units 4   | 676             |
| (iv) 400 Megawatt gas turbine at Kot Addu                     | 1000            |

In addition preliminary work for establishing a 250 Megawatt steam station at Jamshoro will be started

### ANNUAL DEVELOPMENT PROGRAMME 1984-85



during next year. Rupees 150 million have been provided for preliminary works on Kalabagh Multi-purpose Project which on completion will have an installed capacity of 2400 megawatts. During the next year there will be an increase of 385 megawatt in generation of electricity in WAPDA's system and 200 megawatt in Karachi. With the completion of units 9 and 10 at Tarbela, additional capacity of 350 megawatt will become available. In addition, 35 megawatt gas turbine will become operational at Quetta in November, 1984. Second 200 megawatt unit at Bin Qasim near Karachi will be operational by September, 1984.

All the projects on which work will be started during the next year on account of additional investment will not necessarily be completed during the year. By November, 1985, 300 megawatt would be in operation at 450 megawatt combined cycle project at Guddu and 400 megawatt turbine at Kot Addu will be completed. Thereafter by February, 1986, the fourth unit at Guddu is expected to be completed which will give additional generation of 210 megawatt. Thus it should be possible through the electricity generation programme of the next year that by February, 1986 i.e. in less than two years, 1495 megawatt of additional generation capacity is installed. This increase of 30% in the generation capacity of electricity will bring about a basic change in the supply situation of electricity in the country. The present gap between the supply and demand for the electricity is 600 to 800 megawatt.

Most of the amount of Rs. 3640 million earmarked for distribution and transmission will be spent on projects for 500 KV Faisalabad-Multan-Guddu-Karachi line and the second 500 KV Tarbela-Faisalabad-Sahiwal line and 220 KV Faisalabad-Sahiwal line. In addition an amount of Rs. 1000 million has been earmarked for secondary transmission and Grid Station. The target for extension of secondary transmission has been fixed for construction of 1285 kilometer new lines. One hundred new Grid Stations will also be built. Rs. 1150 million will be spent on distribution of electricity and rural electrification.

An amount of Rs. 2820 million has been earmarked for fuel sector which is 69% higher than the programme estimated to have been implemented last year. The major portion of development programme in this sector will be spent by the Oil and Gas Development Corporation. The Corporation aims at drilling 38,400 metres including operation on 16 new wells. It is hoped that as a result of this investment the Corporation will obtain an increase of 1,163,000 barrels of oil and 34444 MCF of gas during the next year. This increase in production will be attained by drilling new wells at Toot, Dakhni, Tando Alam and other places. The results of the programme of private sector will be in addition to these.

Provision of Rs. 4210 million has been made for the transport and communication sector in the Federal Development Programme. This will be Rs. 250 million more than the programme implemented during the last year. This sector includes comple-

tion of bridges at Ghazi Ghat, Dera Ismail Khan-Darya Khan and five bridges on Charsada-Peshawar road and Railway overhead crossing near Amargarh. Work will also be started at Talib Wala bridge. In addition the 3rd high Way Project, additional carriageway project, Quetta-Taftan Road, special repairs of Karachi-Hyderabad high-way and completion of a number of other roads are included in the programme.

The priorities in the Education and Health sectors relate to the establishment of basic health centres and primary education. These programmes are the responsibility of the Provincial governments. Provincial ADPs will be augmented by Rs. 400 million to promote these programmes. In addition the provincial governments are considering mobilisation of additional resources to finance programmes in education and health sectors so that these facilities can be extended to the entire population. It has also been decided that current expenditure on the departments of health and education will be treated as development expenditure so that along with the construction of buildings for schools and colleges necessary staff is also posted and other arrangements are simultaneously made.

In the federal programme, Rs. 830 million have been provided for education and manpower which is 15% higher than the programme estimated to have been implemented during the last year. Out of this Rs. 320 million will be spent for the expansion and upgradation programmes of the universities in Pakistan. The special amount provided for scholarships to the students has also been liberally

enhanced and Rs. 60 million has been provided for this purpose. A sum of Rs. 36 million has been allocated for the extension and development of the libraries. A comprehensive programme has been prepared for manpower training. A sum of Rs. 120 million has been provided for the implementation of this programme in the next year.

Rs. 636 million have been kept in the Federal ADP for health sector programmes. The Central Government Hospital Islamabad and the Islamabad Children's Hospital will be completed during next year. After completion of the first phase of the Ayub Medical College, preliminary work on the second phase will be started.

Three CT Scanner Machines will be imported for diagnosis of complicated diseases.

Accelerated health programme which was started about two years ago will be completed next year. Immunisation Programme to protect the children against serious disease will be completed and with the presence of a trained mid-wife in every village the rate of infant mortality will be reduced.

A sum of Rs. 3570 million has been kept for development programmes in Agriculture, Irrigation and Water resources. High priority in this programme has been attached to water-logging and salinity control. Rs. 1500 million have been provided for this programme whereas last year Rs. 1050 million was spent for this purpose. Effort will be made that during the next year the Chaj Project,

Punjad Abbasi and the essential part of left Bank Outfall Drain (LBOD) of Sind will be completed. To carry out the preliminary work at Pat Feeder in Baluchistan, a sum of Rs. 30 million will be provided in the Federal Budget.

Most of the programmes in the agricultural sector are the responsibility of the provincial government. Nevertheless the Federal Government helps and coordinates with the provincial governments through a number of small programmes. Programme to protect the cotton crop against pests has been included this year also. Federal programmes include building up capacity for storage of agricultural commodities, afforestation and fisheries. The funds provided for these three programmes are 50% higher as compared to the last year. It is hoped that capacity for storage of commodities will increase by 4 lac tons next year. Rs. 210 million have been provided in the Federal Development Programme for agricultural research which will uniformly benefit every department in agriculture and all parts of the country. Provision of Rs. 1500 million as Fertilizer subsidy is in addition to the funds earmarked for other purposes.

Appropriate allocations have been made for other sectors of the economy also so that progress on projects of national importance could be maintained according to development priorities and growth in the goods and services required to meet the basic needs of our people is maintained.

(Message incomplete)

## BUDGET AT A GLANCE

Karachi BUSINESS RECORDER in English 15 Jun 84 p 8

[Text]

| REVENUE  |                   |                    |                   |
|--|-------------------|--------------------|-------------------|
|  | 1983-84<br>Budget | 1983-84<br>Revised | 1984-85<br>Budget |
| <b>RECEIPTS</b>                                      |                   |                    |                   |
| (a) TAX REVENUE                                      | 58388             | 56360              | 59185             |
| Taxes on Income & Wealth (Direct Taxes)              | 9961              | 9497               | 10205             |
| Taxes on Commodities & Transactions (Indirect Taxes) | 48427             | 46863              | 48980             |
| Customs  | (22041)           | (21700)            | (23627)           |
| Sales Tax  | (4063)            | (4100)             | (5000)            |
| Federal Excise                                       | (16430)           | (16333)            | (17028)           |
| Surcharges & Stamps                                  | (5893)            | (4730)             | (3325)            |
| (b) NON TAX REVENUE                                  | 14844             | 16833              | 20232             |
| Income from Property & Enterprise                    | 10431             | 10143              | 12787             |
| Profit Post Office & T & T                           | (1982)            | (2112)             | (2572)            |
| Trading Profit                                       | (463)             | (306)              | (234)             |
| Interest Receipts                                    | (7650)            | (7438)             | (9480)            |
| Dividend & Return                                    | (336)             | (287)              | (501)             |
| Receipts from Civil Admin. and other Functions       | 2120              | 4081               | 4347              |
| Profit of SBP  | (1355)            | (1355)             | (2000)            |
| Currency & Mint                                      | (17)              | (9)                | (17)              |
| Defence Receipts                                     | (332)             | (2570)             | (2194)            |
| Receipts from Economic Services                      | (361)             | (82)               | (68)              |
| Other Receipts                                       | (55)              | (65)               | (58)              |
| Miscellaneous Receipts                               | 2292              | 2609               | 3098              |
| (c) TOTAL GROSS REVENUE RECEIPTS                     | 73232             | 73193              | 78417             |
| Less: Transfers to Provinces                         | 11079             | 11301              | 12754             |
| (d) NET FEDERAL REVENUE                              | 62158             | 61892              | 66663             |
| <b>CURRENT EXPENDITURE</b>                           |                   |                    |                   |
| General Administration                               | 3576              | 2982               | 3738              |
| Defence Services                                     | 25219             | 26751              | 29192             |
| Law & Order  | 1421              | 1516               | 1702              |
| Community Services                                   | 1275              | 1219               | 1402              |
| Social Services                                      | 2204              | 2180               | 2618              |
| Economic Services                                    | 2030              | 1468               | 1539              |
| Subsidies  | 1916              | 4635               | 3870              |
| (Food items)   | (290)             | (1765)             | (1231)            |
| (Others)   | (1826)            | (2870)             | (2639)            |
| Debt Servicing, Investible Funds & Grants            | 20797             | 23594              | 25719             |
| (i) Debt Servicing                                   | (16387)           | (17900)            | (19358)           |
| (ii) Grants to Provinces/Local Authorities           | (1417)            | (1315)             | (876)             |
| (iii) Non-obligatory grants to Provinces             | (2993)            | (4379)             | (5475)            |
| Unallocable  | 1215              | 8                  | 1406              |
| Economy Cut  | -                 | -                  | -450              |
| <b>SURPLUS AVAILABLE FOR ADP FINANCING</b>           | <b>2505</b>       | <b>-2457</b>       | <b>-4073</b>      |
| (1 MINUS 2)  |                   |                    |                   |

(Rs. in million)

| CAPITAL  |                   |                    |                   |                                       |                   |                    |                   |
|--|-------------------|--------------------|-------------------|---------------------------------------|-------------------|--------------------|-------------------|
|  | 1983-84<br>Budget | 1983-84<br>Revised | 1984-85<br>Budget |                                       | 1983-84<br>Budget | 1983-84<br>Revised | 1984-85<br>Budget |
| <b>A. RESOURCES (1 + 2)</b>                        | <b>24980</b>      | <b>22909</b>       | <b>24788</b>      | <b>2. EXTERNAL ASSISTANCE</b>         | <b>16775</b>      | <b>14638</b>       | <b>14531</b>      |
| <b>1. INTERNAL RESOURCES (1) + (2)</b>             | <b>8205</b>       | <b>8272</b>        | <b>10257</b>      |                                       |                   |                    |                   |
| (1) FEDERAL GOVERNMENT (i + ii)                    | 5878              | 5707               | 7817              | Project Aid                           | 7101              | 5963               | 8258              |
| (i) Revenue Surplus available<br>for ADP Financing | (2505)            | (-2457)            | (-4073)           | Commodity Aid                         | 3830              | 2682               | 1961              |
| (ii) Net Capital Receipts (a<br>minus b)           | (3373)            | (8164)             | (11690)           | Food Aid                              | 1436              | 1701               | 1661              |
| (a) CAPITAL RECEIPTS                               | 15907             | 21701              | 24088             | Other Aid                             | 4308              | 4310               | 2661              |
| Unfunded Debt                                      | 5418              | 8453               | 10242             | <b>B. DEVELOPMENT OUTLAY</b>          | <b>31000</b>      | <b>29146</b>       | <b>33290</b>      |
| Deposits Bearing Interest                          | 2240              | 2240               | 2240              | 1. Federal Government                 | 23878             | 22080              | 25768             |
| Recoveries of Investments                          | 4                 | 4                  | 4                 | (a)+(b)+(c)+(d)                       |                   |                    |                   |
| State Trading (Net)                                | -                 | -                  | -                 | (a) Departments                       | 8980              | 6945               | 8150              |
| Recovery of Loans                                  | 2254              | 2187               | 2668              | (b) Indus Basin                       | 602               | 652                | 285               |
| Domestic Debt (Permanent)                          | 3110              | 5369               | 5450              | (c) Autonomous Bodies                 | 12578             | 12773              | 15853             |
| Floating Debt                                      | -900              | -854               | -700              | Wapda                                 | (7179)            | (6879)             | (9377)            |
| Deposits not Bearing Interest                      | 4366              | 4867               | 4820              | Pakistan Steel                        | (1882)            | (1718)             | (650)             |
| Suspense Accounts                                  | -582              | -564               | -632              | Railways                              | (1442)            | (1071)             | (1382)            |
| (b) CAPITAL PAYMENTS                               | 12534             | 13537              | 12398             | Other Public Corporations             | (2073)            | (3304)             | (4464)            |
| Government Investments                             | 1845              | 2320               | 2394              | (d) Fertilizer Subsidy                | 1720              | 1690               | 1500              |
| Repayment of Foreign<br>Debt                       | 8489              | 8967               | 7752              |                                       |                   |                    |                   |
| Deposits Bearing Interest                          | 1986              | 2038               | 2038              | 2. Provinces                          | 6900              | 6863               | 7300              |
| Deposits Not Bearing<br>Interest                   | 214               | 214                | 214               | Punjab                                | 3599              | 3580               | 3809              |
| Debt Rescheduling                                  | -                 | -                  | -                 | Sind                                  | 1448              | 1447               | 1533              |
| (2) SELF-FINANCING BY AUTONOMOUS<br>BODIES         | 2327              | 2565               | 2640              | NWFP                                  | 1177              | 1177               | 1245              |
| WAPDA  | (2107)            | (2345)             | (2127)            | Baluchistan                           | 675               | 659                | 713               |
| Other Public Corporations                          | (220)             | (220)              | (513)             | 3. SDP Baluchistan                    | 172               | 172                | 172               |
|  |                   |                    |                   | 4. SDP FATA                           | 50                | 50                 | 50                |
|  |                   |                    |                   | Total-Development Outlay<br>(1+2+3+4) | 31000             | 29146              | 33290             |
|  |                   |                    |                   | Total Resources (A)                   | 24980             | 22909              | 24788             |
|  |                   |                    |                   | GAP                                   | 8020              | 8238               | 8502              |

CSO: 4600/632

## BUDGET SAID WIDELY HAILED

Karachi BUSINESS RECORDER in English 15 Jun 84 pp 1, 7

[Text]

Leaders of trade and industry in the City have hailed the Federal Budget for 1984-85 announced yesterday by Federal Finance Minister Ghulam Ishaq Khan, expressing the hope that it would ultimately pave way for accelerated industrialisation in the country.

When contacted by "BUSINESS RECORDER" to give their comments on the Budget, they particularly mentioned the announcement of the Industrial Policy which dispelled the doubts of any further nationalisation of the industrial units.

The Industrial Policy also provided adequate facilities and incentives for setting up of industries in the backward areas of the countries, they added.

The businessmen also hailed the new steps taken for the Islamisation of economy from the next fiscal year.

They also appreciated the relief provided in matter of income tax for the low-income and salaried class people.

The businessmen, however, did not approve the increase made in prices of gas and petroleum products as it would enhance the production cost of industries.

## ASHRAF TABANI

Giving his comments, former Finance Minister of Sind and a prominent industrialist Ashraf W. Tabani said that Finance Minister had given a very frank review of the outgoing year and put the whole nation on a test, to make up for the shortfalls in the coming year. He expressed the hope that the nation would respond in a positive manner.

Tabani mentioned four main features of the Budget which are:

-The production targets fixed for 1984-85 are based on two years performance in 1982-83 and 1983-84;

-A very broad based Industrial Policy has been announced which, of course, will need detailed study;

-A very basic decision to eliminate interest from the banking system from Jan. 1, 1985 has been announced;

-Energy targets, formulated in the Budget, will help to remove the imbalance in demand and supply.

He said the taxation measures needed further study.

## HAROON RASHID

Welcoming the budget, Senior  
[words missing - as  
printed]

About the formation of a new organisation, Regional Development Finance Corporation, announced by the Minister in his speech, Khamisani said it would lead to multiplication of the official agencies. The task assigned to the proposed corporation could be done by the existing institutions too.

A former President of the Income Tax Bar Association Z.H. Jafri, said the relief provided for salaried class in matter of income tax was inadequate.

He said the low-income and salaried class were expecting much more relief in the Budget.

Agency report add:

#### **BASHIR JANMOHAMMAD**

Former President of Karachi Stock Exchange Bashir Janmohammad said that reduction in customs duties would lead to increased production of various goods in the country.

He welcomed the extension in 'tax-holiday', and said it would greatly facilitate in developing the less developed areas of the country.

He said such facility would indirectly help the poor people to raise their standard of living.

Bashir Janmohammad also welcomed the step of levying tax on 'savings bank accounts' whose profit crossed the limit of Rs.1,000, and said the "black money" and other "hoardings" in this way would be checked.

He, however, criticised the increase price of gas, petrol and kerosene oil, and said it would affect the common man.

#### **HAJI HUSSAIN SHAKOOR**

A former Director and senior member of Karachi Stock Exchange Haji Hussain Shakoor welcomed the encouragement given to the private sector in the Federal Budget. However, he said there was need for measures to promote capital formation in the country.

Haji Shakoor hailed the incentives given to the engineering industries, which according to

him, had been "almost ignored" in the past. He welcomed the increase in customs duty for the imported tractors in order to provide protection to the local tractor parts manufacturing industries.

He also lauded the relief given in income tax to the salaried class.

Haji Shakoor noted with satisfaction the assurance given to the private sector that there would be no further nationalisation of any industries.

#### **MAZHAR SALIM**

Chairman of Communications Committee, Karachi Chamber of Commerce and Industry Mazhar Salim said that the incentives given to private sector would lead to industrial progress in the country.

He hailed the announcement of an industrial policy announced by the Finance Minister would simplify the process of industrialisation and help in the setting of new industries. He also welcomed the permission given to the private sector to set up industrial states.

Mazhar Salim also welcomed the tax holiday given to the less developed areas like Jacobabad and Shikarpur. He also hailed the lowering of the income tax slabs for the fixed income groups.

Chairman of Imports sub-Committee, Karachi Chamber of Commerce and Industry Ilyas Wadhwal described the Budget as "balanced". He welcomed the relief given in the wealth tax, and the deregulation measures in respect of setting up new industries.

Wadhwal hailed the announcement of a new industrial policy and encouragement provided to the private sector. He noted with satisfaction the assurance given by the Finance Minister that there would be no further nationalisation of industries.

Vice-Chairman of All Pakistan Textile Mills Association Bashir Haji Ali Mohammad welcomed the raise in the prices of imported cement to bring at par with the prices of the domestic cement.

He suggested that similar measures should also be taken in respect of other commodities to protect the domestic industry.

He said the prices of gas, petroleum and kerosene oil should not have been increased as it would effect the common man.

Vice-President of the Karachi Chamber of Commerce and Industry Haroon Rashid described it as "development oriented" which would pave way for self-reliant economy in the country.

He appreciated the incentives provided for setting up of the industry in backward areas of the country and particularly the measures to develop engineering and basic pharmaceutical industries. Haroon Rashid also appreciated the due priority given to the development of the energy sector which was prime need of the time.

As for rise in prices of gas and petroleum products, he said it was "unavoidable" but would raise the production cost of the industries.

#### **HABIB AHMAD**

Former Vice-Chairman of the SITE Association of Trade and Industry Habib Ahmad said that Federal Finance Minister had exercised tremendous restraint in putting forward the tax proposals which would increase the prices. "He has kept them to a bare minimum."

Habib also praised the Finance Minister for providing facilities and concessions for setting up of industries in the far flung areas.

#### **JABBAR KHAMISANI**

A former President of the Karachi Chamber of Commerce and Industry Abdul Jabbar Khamisani has also praised the Budget and particularly mentioned the announcement of joint ventures between public and private sectors in which management would rest with the private sector.

CSO: 4600/632

RECORDER COMMENTS ON BUDGET

Karachi BUSINESS RECORDER in English 15 Jun 84 p 2

[Editorial: "The Budget"]

[Text]

There is nothing to be excited about in the Budget for 1984-85 announced by Finance Minister Ghulam Ishaq Khan yesterday. In actual fact, the policy followed is the same the foundations of which were laid in the current year's budget in June 1983, for accelerating industrial progress, restructuring the economy on Islamic lines and achieving self-reliance. Viewed in this background, it becomes clear that apart from taking one gigantic step towards interest free banking, attempts have been made only to correct the distortions that have crept in or have continued. The adjustments in duties and taxes are all in line with that approach.

The most talked about provision will be the increase in the prices of petroleum products as this particular increase is going to affect all strata of society, though smokers would also grieve at the increase in cigarette prices. Saner elements will mostly welcome the rise in cigarette prices but that of petrol is bound to be resented as any increase in the price of this particular commodity in a country like ours affects the price structure in the entire economy. One would think that this could have been avoided if a more realistic rather than the present hesitant increase had been made in the gas tariff, as even with the proposed increase the natural gas price still remains much

lower than that of other comparable fuels.

The rest of the changes and alterations in the taxes and duties have all been made to boost industrialisation and industrial production in the country. Twenty per cent tax credit of the amount invested by public companies established in less developed areas as also five year tax holiday for industrial projects in certain districts of Sind and Punjab, are all steps in that direction. These concessions will be available even if the new units are not located in industrial estates. A particular concession to be noted is the five year tax holiday and exemption from customs duty and sales tax on plant and machinery for any new industry based on "highly advanced

technology". The definition of "highly advanced technology" will be awaited with keen interest by the entrepreneurs in the country and abroad.

The incentives provided for the promotion of local manufacture of basic chemicals of pharmaceuticals are also in line with the policy perspective that has been adopted by the managers of our economy. Similar concessions and facilities have been provided for the engineering industries. Also welcome is the assurance that such ventures as would henceforth require sanction — the list of which has now been reduced very considerably — will not take more than three months to be approved.

All these measures should give a very considerable fillip to investment and industrialisation. It would be miserly not to compliment Ghulam Ishaq Khan and the present regime for successfully continuing the task of basic restructuring of the economy and making it more private sector oriented. That Pakistan could withstand the effects of world monetary turmoil and the hardships and upsets caused by natural forces is a proof of the fact that the economic policy is well conceived. Indeed Ishaq has very ably utilised the budget as an all pervasive and persuasive instrument for motivating the people to work for the achievement of a self-sustaining and reliant economy.

## TEXT OF STATEMENT ON INDUSTRIAL POLICY

Karachi BUSINESS RECORDER in English 15, 16 Jun 84

[15 Jun 84 pp 2, 9]

[Text]

The government yesterday issued an Industrial Policy Statement, third of its kind in the history of the nation, which lays down a detailed framework and guidelines for the private and public sectors.

The following is the text of the statement.

Pakistan's first Industrial Policy Statement was issued in 1948. This under-scored the objectives and outlined the strategy of industrialization appropriate for a newly independent nation determined to change the predominantly agricultural character of its economy.

The revised Industrial Policy Statement issued in 1959 was based upon the experience of more than a decade of actual progress and the emerging pattern of industrialization in the country.

The period of a quarter century since 1959 has witnessed a remarkable growth, expansion and diversification of the industrial structure in the country. The period was also characterised by extremely sharp turns in the Government policy towards the ownership of industrial assets.

**BACKGROUND**

Private sector was the main vehicle for industrial investment during the fifties and sixties. An economic Reforms Order was issued in 1972 taking over the management of a number of industrial units, and in 1975 there was another round of nationalization of rather small agro-processing units. The sudden shift towards nationalization of private sector industrial assets shattered the private sector confidence. At the same time there was also a great acceleration in the direct investment

by the public sector in setting up new industries ranging from basic manufacture of steel to the production of garments and bread. This virtually left the public sector alone to carry the entire burden of industrialization.

The present Government when it came into power in 1977, clearly perceived the need for the revival of the private sector and the creation of a new balance between the public and private sectors.

Starting with the strategy laid down in the Fifth Plan, a number of policy statements by the Government on specific points and a variety of measures to remove identified difficulties have succeeded over the past six years in reviving confidence and trust. To remove any lingering doubts and uncertainty and as a measure of integration of the policies pursued so far, the Government of Pakistan has decided to issue a consolidated Industrial Policy Statement not only to reiterate the basic long-term perspective but also to evoke an active and confident response from the private sector to the responsibilities and opportunities offered by the Sixth Plan which seeks a major acceleration in private investment in the industrial sector. This Policy Statement essentially represents the continuation of the approach evolved by the Government over the last six years and consolidation of measures adopted as pragmatic response to the specific problems identified in close consultation with the private sector. Opportunity has been taken to fill some of the gaps and strengthen specific measures. The long-term objective remains to create the foundations of a constructive partnership between the public and the private sectors for building a fully developed industrial and technological base in the country.

## ACHIEVEMENTS OF INDUSTRIAL PROGRESS

Industrial growth in Pakistan since 1947 has been highly impressive. Starting with virtually a complete absence of manufacturing activity in the territories forming Pakistan, the country has developed a substantial industrial base. Industrial sector including large and small scale manufacturing now constitutes 19 per cent of GDP with manufactured items accounting for 55 per cent of the total exports and employing a labour force estimated at 3.95 million, 85 per cent of which is in the small scale industries. With the correction of the exchange rate from time to time the attractiveness of the export market resulted in a high rate of expansion in the relatively small-sized manufacturing establishments.

Large scale manufacturing accounts for 70 per cent of the total industrial value added in the country. A considerable diversification has been achieved in its structure. The textile industry played a pioneering role and was for a long time the leading sub-sector. At the end of the sixties, the textile industry accounted for roughly 32 per cent of the industrial value added. Its share has since gone down to 16 per cent with the growth of chemicals, metals and metal based industries. Chemicals including fertilizer and petroleum refining and steel and steel-based industries, with machinery and transport equipment, account for 37 per cent of the industrial value added in the country, according to the latest census of manufacturing industry. After completion of the Pakistan Steel Mill at Karachi by October this year the share of such industries is estimated to increase to around half of the gross value added in large-scale manufacturing.

The industrialization during the period immediately after independence reflected the aspirations of a nation in great hurry. High degree of protection frequently resulted in the creation of excess capacity and inefficient industries which remain uncompetitive even after a long period of operation.

In addition, product development failed to receive adequate attention, many industries did not until recently progress beyond the stage of assembly, formulation or extrusion and exports were limited to coarse and low value products. This situation underlines the need for directing a substantial

part of new investment into basic manufacture involving higher technology.

The expansion of industrial sector is now faced with a different set of problems. Infra-structure shortages, particularly of gas and electricity, are becoming severe which on the one hand involve a heavy cost penalty and on the other hamper regional dispersion and choice of industries.

The problem of industrial financing has also become more complex because of escalating machinery prices and high international interest rates placing a greater demand on the resources, enterprise and credit worthiness of the entrepreneur. For example, a cement plant which used to cost six to seven crores of rupees in 1960s now costs sixty to seventy crore rupees requiring financial packaging jointly by a number of institutions at home and abroad.

## GOALS OF INDUSTRIAL POLICY

The primary goal of industrial development is welfare of the people by providing them opportunities for gainful employment and higher incomes. Full attainment of this goal places a social responsibility on the industrial sector, both public and private, to ensure reasonable prices, maintain quality of its products and provide high standards of service.

As the country possesses the requisite natural and human resources for industrial growth, the industrial policy would continue to be directed towards increasing the share of the manufacturing sector in the total economy. Emphasis will, however, increasingly shift-towards deepening the industrial structure through an increase in the weight of high value-added, more sophisticated engineering chemicals and other basic industries. It is also imperative to ensure optimum utilization of existing industrial capacities and bring about revival of sick and closed industrial units wherever it is justified by their economic viability and managerial competence.

Another major goal of industrial policy would be to strengthen the linkages of the industrial sector within the economy. This is sought to be achieved by developing, on the one hand, agro and mineral based industries, and, on the other hand, by creating domestic capacity to manufacture machinery, equipment and intermediate products required by other sectors of the economy.

Such linkages would be used, in combination with various fiscal and other policy instruments, to purposefully achieve dispersal of industry throughout the country in an economically viable manner. The supplies of scarce infra-structure will have to be converged in future into a limited number of growth areas through the establishment of industrial estates or other such measures.

Given the size of Pakistan's own domestic market, its industrial future lies not merely in terms of an inward looking domestic market approach, but in boldly facing competition and aggressively seeking a higher share of the world market. The next phase of industrialization must, therefore, include greater emphasis upon strengthening the basic competitive position of the industries through a process of tariff rationalization, modernization, quality control and standardization rather than providing them excessive protection to survive with their own weaknesses and inefficiencies. In short what the country now needs is export-led industrialization.

While the Industrial Policy will aim to achieve the goals mentioned above as a long-term objective, they have to be translated into specific targets for medium term planning.

The target of the Sixth Plan are:

- (a) to increase industrial investment from 3.2 per cent of GNP at the beginning of the Plan period to 4.4 per cent by its end;
- (b) to increase the share of private investment in the total industrial investment to 62 per cent by the end of the Sixth Plan from 40 per cent in the beginning of the Plan;
- (c) to increase private industrial investment as a proportion of GNP over this period from 1.3 per cent to 3.0 per cent.

The Plan also indicates the following priorities for the expansion of the manufacturing sector:

(i) Highest priority is accorded to the steel based engineering goods industries. With the completion of the Karachi Steel Mills, urgency is attached to investment in downstream industries. In addition, there is growing demand for capital goods by other sectors of the economy as well as for exports. Appropriate tariff and other policies will be developed in order to sustain and expand the engineering sector.

(ii) The projected high growth in agriculture is expected to expand opportunities for investment in pro-

cessing industries for domestic and export markets. Among these, cotton textiles and sugar are already established. Cotton textiles industry would be strengthened and oriented towards higher value-added products as a modern export-oriented industry. Sugar would have to complete its transition from an import substitution industry to acquire a competitive export strength. A number of new industries will need to be established to process surplus fruits and vegetables for the export market.

(iii) Agricultural inputs provide a major growth point for industrial expansion. While the country has become self-sufficient in nitrogenous fertilizer, phosphatic fertilizer factories would need to be set up to meet the demand for this key input. Mechanisation of agriculture would provide the major linkage between agriculture and industry.

(iv) Industrialization will also have linkage with the already discovered and proven resources of minerals like copper, gypsum and phosphate rock. The potential in coal development will be utilized for power generation and for coal-based industries.

In addition, the future industrialization will focus attention on the following areas:

(i) Defence related industries will be given priority and special encouragement. Arrangements will be made to combine both civil and defence demand for various components to enlarge the size of this market.

(ii) Industries based on highly sophisticated technology and involving high risk and fast obsolescence and for which no capacity exists at present will, as pioneering industries, be provided with special incentives.

(iii) The private sector will continue to be encouraged through fiscal incentives to set up Industrial Estates to provide not only land and infrastructure but also standard factory buildings, housing, schools, hospitals and welfare and recreational facilities. The selection of sites for the Industrial Estates and provision for gas, telephones and electricity will be co-ordinated by the Ministry of Industries with the Provincial Governments and other concerned agencies. These estates will be run by the private sector on self-financing basis.

## ROLE OF PUBLIC AND PRIVATE SECTOR

The Government would like to reiterate that it has no intention to take over the ownership or control of any private sector industries in future. In this behalf the provisions of Protection of Rights in Industrial Property Order, 1979 will be respected. Government will continue to pursue a pattern of mixed economy with the private and public sector complementing and reinforcing the role of each other. The private sector will, however, shoulder the major responsibility for future industrialization.

Over a period of time, a large class of potential entrepreneurs has developed, though with relatively modest resources earned from other economic activities within the country or mobilized by way of savings from employment abroad. These potential entrepreneurs have the capacity and are keen to take up sizeable responsibilities in the industrial field. Given a suitable framework of policies, particularly relative freedom from unnecessary controls and regulations, there appears to be a promising climate for rapid expansion in private investment.

At the same time the public sector has established its managerial and entrepreneurial foundation. It is in a position to charter its future course in a manner which would create a mutually supportive relationship between the public and private sector. Public sector has come to stay in industries like steel, fertilizer, cement, petroleum refining and petro-chemicals, automotive equipment, etc., wherein it would continue to remain active, through mainly concentrating upon rationalization, balancing, modernization and selective expansion. These industries are, however, by no means the exclusive presence of the public sector. As in the past, the Government would be willing to admit private sector participation even in these fields and would welcome concrete proposals in this behalf supported by proper feasibility studies and financing plans. Where, however, in the case of an industry considered essential from the overall national point of view, the private sector is not forthcoming for reasons either of the requirements of large amount of capital or acquisition of sophisticated technology, or where situation of private monopoly is apprehended, the public sector may step in to fill the vacuum. The public sector will also

continue to play its socio-economic role in the industrial development of less developed regions. Most of the investment required by public sector for its programme will, in line with the existing policy, have to be generated by public sector enterprises through their own internal resources such as retained earnings and provision for depreciation.

With a view to fostering healthy competition in all industrial activities between the public and private sector, government will continue to maintain the existing policy of equalizing the conditions and environments and access to financing for both these sectors. The 'cost-plus' pricing formula on which some of the existing industries are based will be avoided as far as possible in setting up new industries.

## EFFICIENCY AND PERFORMANCE CRITERIA OF PUBLIC SECTOR ENTERPRISES

The Government would continue to focus its efforts towards improving the technical and financial performance of public sector enterprise through suitable administrative and institutional measures. A number of such measures to improve their efficiency have been introduced. An Experts Advisory Cell has been created to monitor, coordinate and evaluate performance of each enterprise. This has been accompanied by

delegation of powers to holding corporations and divestiture of un-profitable units. More recently, a Signalling System has been established which on the one hand would translate the socio-economic national goals into explicit enterprise objectives, quantified for a performance criterion, and on the other link the managerial efficiency with pecuniary reward. The incentives will be on the same lines as are normally allowed by the private sector.

The Government will continue to encourage close collaboration between public and private sectors in setting up some of the large industrial ventures with management in suitable cases placed in private hands. Areas, where collaboration can be possible, will include enterprises requiring speedy response in a highly competitive market.

Following the practice of the previous plans, an Industrial Investment Schedule for the Sixth Plan period has been prepared. The Schedule is neither a mandate nor the figures

therein represent fixed targets. It is merely indicative in nature and the figures at best provide guidance regarding investment possibilities. The figures in the Schedule do not constitute ceilings. They can be exceeded in case the market demand justifies and the financial institutions are convinced about the feasibility of the proposed projects. A periodical review of the investment trends will be carried out and modifications made in the Schedule in the light of actual experience.

In the Schedule, 202 industries have been listed which involve investment decisions of the order of Rs. 130.0 billion. The rationale of these figures has been explained in the preface to the Schedule. The size of investment envisaged in the Schedule has been deliberately kept larger than the Sixth Plan investment targets to allow a wider choice to the investors and to take care of the spill over into the next Plan.

#### PROCEDURE OF GRANT OF PERMISSION

The objective of the Government is to attain deregulation of industry through the removal and relaxation of sanctioning procedures except to the extent considered essential, for the healthy growth of the industrial sector.

Government sanction for some categories of investment is considered essential to ensure that major projects of national significance or projects in those industries where Government pricing policy and other support measures are necessary, are established with Government knowledge and involvement and the final decision is based on a careful analysis of the implications for the overall economy. Sanction in such cases is not a restriction on investment. It is an essential part of the pre-investment deliberation and analysis to ensure smooth progress of major projects, once the commitment of national resources has been made to such projects. Sanction will only be required for setting up projects falling in the following categories:

(i) Industries specified for reasons of over-capacity, price regulation, implementation of a programme of assembly-line manufacture requiring indigenization of the manufacture of components or projects of major national importance or for religious, security or socio-economic objectives (Annexure I).

(ii) projects involving foreign private investment;

(iii) large projects costing Rs. 300 million and above;

(iv) projects requiring cash foreign exchange of more than Rs. 50 million for plant and machinery;

(v) projects involving import of second hand machinery, except under NRI; and

(vi) projects in which more than 60 per cent of the raw material is importable provided the value of such import exceeds 20 per cent of the total investment in fixed assets.

The rationale of keeping any industry in any of the above categories will be periodically reviewed and adjustments as necessary made from time to time.

The industries included in the above categories will require clearance of the Central Investment Promotion Committee (CIPC) and approval of the Federal Government. To cut down procedure, applications will simultaneously be sent to the financing institutions which the sponsors will identify in their application. Financial Institutions will be required to give indication in the meeting whether they are willing to accept the proposals for detailed scrutiny to determine the financial viability of the project and credit worthiness of the sponsors.

The role of IPB will include review and monitoring of the pace of implementation of industrial sanctions. The Ministry of Industries will establish a Data Bank which will provide IPB on regular basis, information on projects undertaken in different fields, existing capacity in these fields and demand estimates. This information will help provide signals against the creation of wasteful excess capacity.

As in the past, foreign private investment will be welcome. It will be particularly encouraged in the form of joint equity participation with local investors and where there is basic manufacture involving advanced technology. All project proposals involving foreign investment require Government approval and will be filed in the first instance with the IPB.

Government will endeavour to meet foreign exchange requirements of industrial projects upto Rs. 50 million against the existing limit of Rs. 30 million from the country's own resources, where the foreign exchange component is no more than 50 per cent of the total fixed capital

investment of the project. The ceilings under this policy would be reviewed in the light of experience and periodical assessment of the foreign exchange resources available.

Standard terms of obtaining foreign private loans and suppliers credit have been prescribed. These terms may be revised from time to time keeping in view the changes in the international capital market. Standard terms for technical fee and royalty agreements have also been prescribed (Annexure II). All agreements conforming to the standard terms will be automatically approved and registered by the State Bank of Pakistan which will send a confirmation letter within one month of the receipt of an agreement. Sponsors who want terms different from the standard terms will submit their proposed agreements to IPB for consideration and approval of the Ministry of Finance.

The Pay-As-You-Earn-Scheme will be continued. Projects submitted under this Scheme will not require specific approval. However, the sponsors will get them registered with IPB and State Bank of Pakistan. The commitment to export under such agreements will be strictly enforced. Authorization to make repayment of principal and interest will be issued promptly.

Thus the bulk of investment activity would be free from sanctioning procedures. In cases where sanctions are required, it will be ensured that ordinarily the final decision is communicated within a period of 90 days.

The present system of registration of such industries which do not require any sanctions, with the Provincial Governments, will continue for purposes of record and compilation of statistics on investment, capacities etc.

#### MONITORING PROGRESS OF INVESTMENT PROPOSALS

In order to overview the implementation of this liberalized industrial policy, the Government have decided to set up a permanent Industrial Policy and Procedure Committee under the Chairmanship of Federal Minister for Industries. It will include Ministers for Planning, Production and Provincial Ministers for Industries, Secretary Industries, Secretary Ministry of Finance, Chairman, Pakistan Banking Council and heads of Financial Institutions. The Committee would, in consultation with the

concerned agencies, monitor the progress of the implementation of sanctioned projects, identify constraints and difficulties in the areas of financing and infrastructure. Where the Committee finds lack of progress on account of inadequate follow up by the sponsors, the Committee may cancel the sanction after giving due notice to the sponsors.

### INFRA STRUCTURE

Industrial Estates were given special dispensation in the Budget for which were entitled to these concessions lacked necessary infrastructure facilities. It has, therefore, been decided to identify a limited number of 'growth areas' in these areas where the public utility departments will plan to concentrate the infrastructure facilities in future.

In addition, the Government will be willing to consider on case to case basis, concessions to offset the differential in the cost of setting up industries in the backward areas vis-a-vis the developed areas to help overcome the disadvantage of unfavourable location. In the final analysis, it is important that the industries set up in an area take root there, develop linkages and promote overall development. Otherwise, induced location by powerful incentives in wrong areas may not benefit the less developed regions. The Government in implementing the compensation policy would take into account the linkage effects of the projects as also its general development impact on the economy of the concerned region.

Efforts would also be made to discourage industries in areas where there is already considerable congestion and environmental pollution. In particular, industries which place a heavy demand on utilities and have greater impact on ecological situation will be integrated with the development of "Industrial Estate" at suitable places.

The Government has decided to set up a Regional Development Finance Corporation as a subsidiary jointly owned by the NDPC and other financial institutions. Its task will be to identify viable areas of investment in less developed regions and prepare projects with detailed feasibility studies. These will be financed by the NDPC itself or in association with other institutions.

In order to simplify the procedure for obtaining approval of the Provincial Government for industrial loca-

tion, all the Provincial Governments had announced their location policy in 1980 (Annexure III) for the guidance of the private sector. These guidelines provide a negative list of locations where industrial units cannot be located without permission of the Government. Other areas are open to free choice of entrepreneurs. No NOC from the Provincial Governments will be required, where a project conforms to the location policy announced by the Provincial Government concerned.

### FOREIGN DIRECT INVESTMENT AND LOANS

The Government attach a great importance to the flow of foreign direct investment in areas where it brings advanced technology, managerial and technical skill and marketing expertise.

Adequate legal framework for foreign investment has been provided in the form of Foreign Private Investment (Promotion and Protection) Act, 1976 (Annexure IV). The Act provides for security against expropriation and adequate compensation for acquisitions. The Act also guarantees the following:

- (i) remittances of profit and capital;
- (ii) remittance of appreciation of capital investment;
- (iii) foreign private investment shall not be subject to more burdensome taxes on income than those applicable to investment made in similar circumstances by citizens of Pakistan; and
- (iv) relief from double taxation in cases of those countries with which Pakistan has agreement for Avoidance of Double Taxation.

The foreign investment is also entitled to the following facilities:

- (i) foreign nationals employed in Pakistan are permitted to send monthly remittances to the country of their domicile upto 50 per cent of net income; and
- (ii) foreign nationals on returning from Pakistan are permitted to transfer their savings.

Foreign investment will be encouraged in industrial projects involving advanced technology and heavy capital outlay like engineering, basic chemicals, petro-chemicals, electronics and other capital goods industries.

The main considerations which will continue to be kept in view while allowing joint ventures between local

entrepreneurs and foreign investors will be that they (a) serve overall national objectives (b) contribute to the development of capital, technical and managerial know-how; (c) lead to the discovery, mobilization or better utilization of the national resources (d) strengthen balance of payments; (e) result in substantially increasing employment opportunities in Pakistan. Package deals with foreign firms for the provision of capital, production of goods, technology, management and marketing know-how backed up by their own international sales net-work will also be encouraged for such joint ventures.

### EXPORT PROCESSING ZONE

An Export Processing Zone at Karachi has been set up to attract foreign investment in export-oriented industries. Apart from foreign investors, Pakistanis working abroad can also invest in industrial projects in the zone on the basis of non-repatriable investment. The concessions and facilities offered by the EPZ which include duty free import and export of goods, tax exemption, etc. will continue to be available and more land for the zone will be developed if the demand justifies.

### INVESTMENT BY OVERSEAS PAKISTANIS

Pakistanis working abroad have made a notable contribution to the economy of the country. They remit to the country substantial part of their savings which provide a significant support to the balance of payment position. Efforts are being made to induce Overseas Pakistanis to use a growing proportion of their savings for investment in the industrial field.

The concessions and facilities provided to Overseas Pakistanis will continue to be available. These include concession in custom duty on machinery imported against non-repatriable investment, advisory services by the Investment Centre abroad, simplified sanctioning procedure. Apart from strengthening the existing Investment Centre, the development financing institutions would jointly set up more Investment Centres in the Gulf States and Europe to provide them investment counselling and guidance.

Overseas Pakistanis are not being asked to disclose the origin of the funds for investment and they can bring second-hand machinery without any surveyor certificate. This policy will continue. There is no restriction

tion on the resale of the machinery after it has been imported. Overseas Pakistanis can invest their savings in new public share offers and in Modaraba Certificates on repatriable basis.

### INDIGENIZATION POLICY

Manufacture of a number of capital goods and consumer durables can only be undertaken on the basis, to begin with, of assembly arrangements combined with progressive manufacture of components. In all such cases a deletion programme is clearly identified and a schedule for progressive deletion of components from the completely knocked down (C.K.D.) kits imported from abroad is laid down. The target is to produce over a predetermined period all the components and parts locally, confining imports to only few components which it is not economical to produce locally.

The local manufacture of components is possible either by sub-contracting with vendor industries already producing or capable of producing parts or by setting up in-house capacity for such basic manufacture. The assembly units will be encouraged to make maximum use of sub-contracting to vendor industries. Vendor industries will receive official encouragement.

The Government has provided necessary incentive in such cases by creating a sizable differential between the import duty on finished product and the import duty on C.K.D. imports. This policy will continue. To ensure that deletion programmes are strictly adhered to, Government intends to institute an effective system of monitoring and penalties for non-compliance.

### ROLE OF SMALL INDUSTRIES

The development of Small Scale Industries has a strong socio-economic imperative for the country. It needs smaller amount of capital, generates greater employment opportunities, disseminates the benefit of economic growth to a larger number, has short gestation period and carries the fruit of industrialization to rural areas. Small industries have shown a remarkable resilience even in adversity. It is envisaged that the small industry route will accel-

erate the export-led growth of the economy.

The small industry may be defined as a unit involving fixed capital investment of upto Rs. 10 million. The key elements in developing small industries will be:

(a) Provision of adequate and timely credit at concessional rate.

(b) Existing Training-cum-service Centre for small industries will be strengthened and more such centres will be opened to provide training and common facilities.

(c) The design and operation of the Industrial Estates will take special care to accommodate the needs of small units.

(d) Large scale industrial units, particularly in the engineering sector, will be encouraged to make use of small units as sub-contractors. The Government will assist them to prepare programme of technical assistance, credit for new investment, provision of designs and moulds, with long term contracts for purchase of the products of small units.

(e) Small Industries Corporations/Bords will develop specific programmes for marketing of the products of small industries. They will also implement programmes to upgrade technical know-how and institute quality control. They will disseminate information about acceptable export designs and suitable technology.

(f) No sanction will be needed for setting up a small scale industry, except those falling in specified list.

(g) Small Business Finance Corporation will expand its activities to cover the various small scale industrial estates and will provide them with technical advice in addition to funds.

### RESEARCH AND DEVELOPMENT

Pakistan is lagging behind significantly in R & D efforts. There are very few institutions in the country which are rendering such services. As these institutions are manned by people of highly advanced skills and experience, the cost of services of these institutions is high and beyond the reach of small scale investors. Government will, therefore, undertake institution building during the plan period for rendering advice and assistance in designing, quality control, product presentation and packing.

Private sector will be encouraged to set up R&D facilities industry-wise.

For this purpose, industries will be asked to earmark a small part of their pre-tax profit for R&D. Government has already allowed deduction from income from business or profession of any amount paid to a recognised scientific research institute or a University to be used for scientific research or technical training related to the business of the assessee. Similarly, any expenditure directly incurred on scientific research in Pakistan related to the business carried on by the assessee or any amount donated to the Fund for promotion of Science and Technology in Pakistan is, subject to certain limits, eligible for deduction for the purposes of income tax. The private sector must fully avail of this concession to set up R&D institutes or contribute to a recognised R&D Fund in the private sector. The R&D should aim at:

(i) filling up of technological gap;

(ii) perfection of designing aspects and catering to the changing preferences in foreign market;

(iii) quality standard improvement;

(iv) packing and packaging improvement;

(v) absorption and diffusion of technology, after import, on national level; and

(vi) effective capacity utilization and increased productivity.

The proposed Industrial Policy and Procedure Committee will periodically review progress of R&D efforts by the industry and institute necessary corrective measures, if so warranted by the situation.

### LABOUR RELATIONS

A contented and motivated labour force working in an environment of industrial peace is highly important for the industrial progress of a nation. Pakistan has succeeded during the last 6 years maintaining relative industrial peace. During the period from 1977 to 1984 on average industrial disputes affected production in only 60 industrial units every year. They affected the productivity of 40,000 workers or less than 10 per cent of the labour force in large scale manufacturing sector. The incidence of such disputes was one fifth of the preceding five-years. Average productivity of industrial workers has been increasing at an annual rate of over 3 per cent per annum during this period.

(To be concluded)

[16 Jun 84 p 2]

[Text]

The Government has restrained the workers from going on strike and the owners from any large scale displacement of the workers. The Government has also intervened to ensure that the workers share the benefits of expanding production and improving productivity. Some of the schemes in operation are providing important benefits to workers.

Increase in the financial benefits obtained by the workers combined with a firm handling of any unlawful

**The following are remaining parts of the text of industrial policy statement (partly covered by us in yesterday's issue):**

activity has helped maintain industrial peace. This has blunted the edge of emotional positions of both sides on the issues of a long term labour policy. The Government has intervened to create constructive dialogue between labour and management on the issues of the long term policy. Both the workers and the employers have agreed on a large number of points and are moving towards a broad consensus.

The new labour policy would be based on the recognition that the interests of both labour and ownership are inter-twined with the success of the enterprise. The Government is determined to maintain industrial peace and to avoid disruption of work in the factories. At the same time it would ensure that the workers get their due share in the progress of the industry.

#### Annexure I

#### SPECIFIED INDUSTRIES

##### I. National Security and Defence

Arms and Ammunitions.  
Security Printing, Currency and Mint.  
High Explosives.  
Defence Oriented Electronics.  
Radio-active Substances.

##### II. Religious and Socio-Economic Considerations

Alcoholic and Foreign Brand/  
Concentrate Based Synthetic  
Beverages.

##### III. Projects of National Importance

Basic Steel.  
Manufacture of Basic Metals and Alloys.  
Heavy Mechanical and Heavy Electrical Plants.  
Basic Chemicals.  
Petro-chemicals.  
Public Utilities.  
Ships, Aircrafts and Railway Locomotives.

##### IV. Indigenization

TV, Radio, Tape-Recorders, VCR Cassettes and Tapes. Manufacture of Air-Conditioners, Refrigerators and Deepfreezers. Motor-cycles and Scooters (two and three wheelers). Manufacture of Automobiles, Tractors and Farm Machinery.

##### V. Price Regulation

Fertilizer.  
Cement  
Drugs and Pharmaceuticals  
Vegetable Ghee.

##### VI. Capacity

Sugar.  
Cotton Spinning

**Annexure II**  
**GUIDELINES FOR CONTRACT-  
 ING LOANS CREDITS, AND ROY-  
 ALTY TECHNICAL FEE AGREE-  
 MENTS IN THE PRIVATE  
 SECTOR.**

A number of steps have been taken by Government to improve the access of private sector to foreign currency resources and to facilitate transfer of modern technology. To promote these objectives the Finance Minister had announced in his budget speech for 1983-84 that requirements of clearance of the State Bank of Pakistan and the Ministry of Finance to the terms and conditions of foreign credits including suppliers' credit and credits under Pay As You Earn Scheme will not be required if these conform to certain standard conditions. Agreements for payment of royalty, technical fees and employment of foreign experts could also be entered into without prior clearance of the State Bank of Pakistan or the Ministry of Finance if these conform to the standard terms fixed by Government. It was stipulated that guidelines will be announced by the Government in this respect. The guidelines were not issued earlier as it was considered desirable that these should form part of the new Industrial Policy. These guidelines are now issued as paras 3 and 4 below. Agreements conforming to these guidelines will not require prior approval of any Government agency. The borrower will, however, be required to furnish one copy of the loan agreement to the Exchange Control Department, State Bank of Pakistan, Karachi, and the External Finance Wing, Ministry of Finance, Islamabad for registration. The registration with the State Bank will constitute the authority for the Authorised Dealer to remit the principal, interest and other charges as specified in the agreement to the creditor. Likewise, the party entering into agreements for transfer of technology involving payment of royalty, technical fees and payments to expatriates, will submit one copy of the agreement to State Bank of Pakistan Exchange Control Department Karachi for registration. The registration with the State Bank will serve as the authority for payments in foreign exchange as admissible under the Foreign Private Investment (Promotion and Protection) Act, 1976.

2. It is expected that the foreign loans raised by the private sector will encourage foreign participation in high technology area and in projects

that will break new ground. These loans shall not carry any Government or State Bank guarantee; it would, however, be permissible for commercial banks to issue Bank Guarantees after due scrutiny and with the prior approval of the State Bank as required under the Foreign Exchange Regulation Act.

**3. (A) GUIDELINES FOR FOREIGN LOANS/CREDITS**

|   | Rate/Limit for which sanction<br>is not required              |
|---|---|
| <b>I. Rate of Interest:</b>   |   |
| (a) Interest on loans from banks/<br>commercial institutions.   | Not exceeding 1.5% above<br>LIBOR.                            |
| (b) Interest on Suppliers Credits:  |   |
| (i) Foreign Credits negotiated<br>through Development Financing<br>Institutions viz PICIC, IDBP etc.  | At the rates negotiated by the<br>institution concerned       |
| (ii) In other case  | Not exceeding 1.5% above LIBOR.                               |
| Approval of Government of Pakistan will be required where credit for<br>export is provided at concessional rate by the banks/financial institutions<br>under the instructions or policy of foreign Governments. |   |
| <b>II. Front end fees/charges for cash<br/>loans mentioned at I (a) above where<br/>applicable:</b>   |   |
| (i) Commitment fee  | Not exceeding 1/2% per annum                                  |
| (ii) Management fee   | Not exceeding 1/2% of loan amount<br>for syndicate loans only |
| (iii) Legal Expenses:   |   |
| (a) Single Bank Loan  | At actuals not exceeding \$5,000                              |
| (b) Syndicated Loan   | At actuals not exceeding \$10,000                             |
| <b>III. Down Payment</b>  | Subject to maximum of 15%                                     |
| <b>IV. Repayment Period:</b>  |   |
| Pay As You Earn Scheme  | Not less than 5 years   |
| Other Loans   | Not less than 7 years.  |

LIBO Rate will be applicable in cases where loans are obtained from Euro-Currencies market. For loans and credits secured from other markets abroad, the margin will apply with reference to the rates prevailing in the respective centre. For example in the case of a Japanese Yen loan obtained from Japanese domestic market, the margin will apply with reference to Japanese Long-term Prime Rate

**(B) GUIDELINES FOR AGREE-  
 MENTS FOR TRANSFER OF  
 TECHNOLOGY**

**I. Royalty**

**(1) Definition of Royalty:**

Royalty is a fee paid by a local firm to the foreign collaborator in consideration of:-

"Licence to use the foreign manufacture's patent/Brand name for marketing the product(s)".

**(2) No Royalty would be allowed:-**

(a) On consumer goods for home market; and

(b) In cases where more than 50 per cent shares are held by the owners of the patent/Trade Mark/Brand Name

The existing agreements will, however, continue as per terms and duration already determined

(3) In other cases, the royalty shall be allowed as under:-

(a) Upto 3 per cent on capital goods manufactured for exports;

(b) Upto 2 per cent on consumer goods manufactured for exports; and

(c) Upto 1 per cent on capital goods manufactured for home market.

(4) Royalty shall be for a period not exceeding 5 years.

(5) Royalty will be calculated and certified by the applicants' auditors on the basis of ex-factory price less Excise Duty and Sales Tax, if any, for home market and F.O.B. price for exports.

## II. Technical Fee

### (1) Definition of Technical Fee:

It is a fee paid by the local firm to the foreign collaborators in consideration of:-

(a) Engineering and Technical Services including assistance on manufacturing process, testing and quality control, assistance by way of making available patented process and/or secret know-how, and rights to avail of the technical/confidential information resulting from continuous technical research and development etc; and

(b) Technical training of local personnel.

(2) No technical fee shall be allowed on consumer goods or for simple conventional process goods, which are being produced in the country without foreign technical collaboration.

(3) Technical Fee may either be determined in lump sum to be paid in instalments or be allowed as under:-

(a) Upto 3 per cent on engineering goods and for such basic manufacture which requires sophisticated technology

(b) Upto 1.5 per cent for product(s) other than (a) on new products only.

(c) The aggregate rate of Royalty and Technical Fee should not exceed 5 per cent

(d) Technical Fee shall not be allowed for more than 5 years.

(e) Lump-sum technical fee will not exceed 5 per cent of foreign exchange cost of plant and machinery and will be admissible only for items (a) and (b).

(4) For basic manufacture, Technical fee will be calculated and certified by the company's auditors on the basis of ex-factory price

(5) For assembly/manufacture, Technical Fee may be calculated on F.O.B price of deleted components

or parts of the product(s) which would be manufactured by local licensed firm or ex-factory price of locally produced components or parts of the product(s) whichever is less.

(6) While calculating technical fee, the Excise Duty, Sales Tax and the value of imported components and parts should be deleted from ex-factory price. Documentary evidence in support of the above may be called for from the applicant/s.

(7) In the agreement no provision should be made for any compulsory minimum payment of royalty/technical fee.

(8) In case of payment of Technical fee in lump-sum it should be spread over a number of years and should be linked with transfer of technology/services rendered. Further the supplier of technology should affirm that the price is in line with the agreement made in other countries

(9) There should be no requirement for purchase of raw-material components from a particular source

(10) Agreements should be under the Pakistan Law.

(11) Arbitration should be held in Pakistan under Pakistan Law

## III. Guidelines for Engagement of Expatriates

Foreign experts/technicians may be employed without reference to any Government agency for rendering such services as supervision of installation, commissioning of the plant, and training of personnel. Limits for per diem rates are indicated below:-

### Foreign Technicians:

Canada

U.S.A.

Western Europe and Japan

East European countries and China.

Not exceeding \$250 per day

The rates fixed by the Government organization concerned of the respective countries.

All other countries

Not exceeding \$175 per day

## 4. General

The agreements not eligible for registration on the above basis will require prior clearance from the competent authority.

Remittance of principal and interest, etc., in respect of foreign loans and royalty/technical fee shall be made at the official rate of exchange prevailing on the date of remittance

Requests for exemption from income tax of interest earned on foreign loans will continue to be considered on case to case basis.

These guidelines are subject to revision from time to time as and when required pursuant to changes in the domestic and international capital markets.

**Annexure III  
LOCATION POLICY  
Punjab**

(i) No large scale industry is allowed to be set up within 10 miles of the international border.

(ii) Strategic industries, as far as possible, are not allowed to be set up within 50 miles of the international borders. A list of such industries is in (Appendix I)

(iii) No industrial unit is allowed to be set up in areas affected by flood falling transversely in the strip of one mile of either side across the Grand Trunk Road from Shahdra Town to Muridke Town without prior permission of the Provincial Government.

(iv) No industrial unit with fixed assets upto Rs. 3 million is allowed to be set up in the Municipal limits of Multan, Sialkot, Gujrat except in the Industrial Estates, unless the Provincial Government gives clearance. Similar restrictions apply to Faisalabad, Sargodha, Gujranwala, Jhelum, Chakwal and Gujran Khan after completion of the Industrial Estates in these cities.

(v) No new units in the following sectors are allowed to be set up without the prior approval of the competent sanctioning authority:

- (a) Flour milling.
- (b) Cement.
- (c) Sugar.
- (d) Vegetable Ghee and Refined Oil.
- (e) Cotton Textile spinning.
- (f) Cotton ginning.
- (g) Industries noted under the list of restricted industries.

(vi) No industrial unit is allowed to be set up in Lahore District (except in the Industrial Area, Lahore Township Scheme, Kot Lakhpat), with the exception of export-oriented industries, NRI units, service industries, packing and printing and consumer oriented goods industries, for which the Provincial Government issue necessary clearance.

**Sind**

No new industrial unit is allowed to be set up in Karachi, Dhabeji and Ghoro except the following:

- (a) expansion of existing units within the premises, provided amenities like water and power to the required extent are available.
- (b) Units of the categories mentioned below:—
  - (1) Coaster and barges.
  - (2) Ship building and repairs.
  - (3) Ship-breaking.
  - (4) Seas salt.

- (5) Canning and preservation of sea food.
- (6) Boiler-making.
- (7) Arc and induction furnaces, rolling and re-rolling.
- (8) Pre-fabricated houses, wooden doors and windows
- (9) Plywood doors.
- (10) Petro-Chemicals.
- (11) Industrial gases.
- (12) Ice and Cold Storages.
- (13) Beverages.
- (14) Bakeries.
- (15) Poultry farming and feed.
- (16) Cinema houses and Studios.
- (17) Hotels.
- (18) Light engineering workshops.
- (19) Packaging.
- (20) Printing Presses.
- (21) Industries based on slaughter house waste.

**Baluchistan**

There is no negative list of locations for setting up industries in the Province. However, industrial units in the Hub Chowki Area should be located in the Industrial Estate set up by the Government. Large industrial units for cement and fertilizer are allowed outside the Industrial Estate, for which the Provincial Government issue clearance.

**NWFP**

There is no negative list of locations for setting up of industries.

Investors are free to set up industrial units without obtaining NOC from the Provincial Government in any suitable location in the country other than those specified above.

**Appendix I to Annex III  
(Location Policy of Punjab)  
LIST OF STRATEGIC INDUSTRIES**

1. Basic Steel and Metallurgical Plants.
2. Large size Machine Tool Factories (Limit of investment to be determined).
3. Petro-chemical Industries.
4. Heavy Mechanical Complexes.
5. Heavy electrical Complexes.
6. Heavy Foundry Works.
7. Defence based Electronic Industries.
8. Major Vehicle Assembling.
9. Ordnance Factories.
10. Explosive and Sulphuric Acid Plants.
11. Vehicular Tyres and Tubes.
12. Locomotives and Railway Carriage Manufacturing Plants.

13. Government Mint.
14. Security Printing Press involved in whole time printing of sensitive documents/Currency Notes.

15. Power Generating and Distribution System.
16. Oil Storage Units.
17. Gas Production and Distribution System.
18. Oil Refineries.
19. Locomotives Engine and Workshop thereof.

**Annexure IV  
THE FOREIGN PRIVATE INVESTMENT (PROMOTION AND PROTECTION) Act, 1976**

ACT No. XLII OF 1976

An Act to provide for the promotion and protection of foreign private investment in Pakistan.

Whereas it is expedient to provide for the promotion and protection of foreign private investment in Pakistan, and for matters ancillary thereto:

It is hereby enacted as follows:—

**1. Short title, commencement and applications.**—(1) this act may be called the Foreign Private Investment (Promotion and Protection) Act, 1976.

(2) It shall come into force at once.

(3) It shall apply to all industrial undertakings in Pakistan having foreign private investment established with the approval of the Federal Government after the first day of September, 1954.

Provided that nothing in this Act shall be in derogation of any facilities or protection specifically sanctioned by the Federal Government to foreign private investment in the case of a particular industrial undertaking or a class of industrial undertakings or such facilities or protection as may be available to foreign private investment under a bilateral investment treaty.

**2. Definitions.**—(1) In this Act, unless there is anything repugnant in the subject or context,—

(a) "Foreign capital" means investment made by a foreigner in an industrial undertaking in Pakistan—

(i) in the form of foreign exchange, imported machinery and equipment, or

(ii) in any other form which the Federal Government may approve for the purpose;

(b) "Foreign private investment" means investment in foreign capital by a person who is not a citizen of Pakistan or by a company incorporated outside Pakistan, but does not include investment by a foreign Government or agency of foreign government.

(c) "Industrial undertaking" means an industry, undertaking or establishment engaged in the production, distribution or processing of any goods, the providing of services specified in this behalf by the Federal Government or the development and extraction of such mineral resources and products as may be specified in this behalf by the Federal Government.

(2) Words and expressions used but not defined in this Act shall have the same meanings as in the Companies Act, 1913 (VII of 1913).

(3) Field for foreign private investment, the Federal Government may, consistent with the national interest, for the promotion of foreign private investment, authorise such investment in any industrial undertaking—

(a) Which does not exist in Pakistan and the establishment whereof, in the opinion of the Federal Government, is desirable; or

(b) Which is not being carried on in Pakistan on a scale adequate to the economic and social needs of the country; or

(c) which will contribute to:

(i) The development of capital, technical and managerial resources of Pakistan;

(ii) the discovery, mobilisation or better utilization of the national resources;

(iii) the strengthening of the balance of payments of Pakistan;

(iv) increasing employment opportunities in Pakistan; or

(v) the economic development of the country in any other manner.

**3. Approval of foreign private investment.**— Where the Federal Government sanctions an industrial undertaking having foreign private investment, it may do so subject to such conditions as it may specify in this behalf.

**4 Protection of agreements.**—(1) Where the Federal Government consider it necessary in the public interest to take over the management of an

industrial undertaking having foreign private investment or to acquire the ownership of the shares of citizens of Pakistan in the capital of such industrial undertaking, any agreement approved by the Federal Government relating to such undertakings entered into between a foreign investor or creditor and any person in Pakistan shall not be affected by such taking over to acquisition.

(2) Foreign capital or foreign private investment in an industrial undertaking shall not be acquired except under due process of law which provides for adequate compensation therefor to be settled in the currency of the country of origin of the capital or investment and specifies the principles on and the manner in which compensation is to be determined and given.

**5. Repatriation facilities.**—Subject to the provisions of the Foreign Exchange Regulation Act, 1947 (VII of 1947).—

(a) A foreign investor in an industrial undertaking established after the 1st day of September, 1954, and approved by the Federal Government, may at any time repatriate in the currency of the country from which the investment originated—

(Catch word Appendix III)

(i) foreign private investment to the extent of original investment;

(ii) profits earned on such investment; and

(iii) any additional amount resulting from the re-invested profits or appreciation of capital investment; and

(b) a creditor of an industrial undertaking referred to in clause (a) may repatriate foreign currency loans approved by the Federal Government and interest thereon in accordance with the terms and conditions of the said loan;

Provided that nothing in this section shall affect the terms of the permission to make such investment granted to a foreign investor before the commencement of this Act.

**6. Remittances by foreign employees.**— Foreign nationals employed with the approval of the Federal Government in any industrial undertakings having foreign private investment may make remittances for the maintenance of their dependants

in accordance with the rules, regulations or orders issued by the Federal Government or the State Bank of Pakistan.

**7. Tax concession and avoidance of double taxation.**—(1) The Federal Government may allow such concessions to industrial undertakings having foreign private investment as may be admissible under any law for the time being in force.

(2) Foreign Private investment shall not be subject to other or more burdensome taxes on income than those applicable to investment and in similar circumstances by citizens of Pakistan.

(3) Foreign private investment shall be allowed all the tax concessions which may be admissible on the basis of any agreement for avoidance of double taxation which the Government of Pakistan may have entered into with the Government of the country of origin of such investment.

**8. Equal treatment.**— Industrial undertakings having foreign private investment shall be accorded the same treatment as is accorded to similar industrial undertakings having no such investment in the application of laws, rules and regulations relating to importation and exportation of goods.

**9. Removal of difficulties.**— If any difficulty arises in giving effect to any provisions of this act, the Federal Government may make such order, not inconsistent with the provisions of this Act, as may appear to it to be necessary for the purpose of removing difficulty.

Provided that no such power shall be exercised after the expiry of one year from the commencement of this Act.

**10. Power to make rules.**— The Federal Government may, by notification in the official Gazette, make rules for carrying out the purposes of this act, and such rules may among other matters, provide for the employment of Pakistani and foreign nationals in industrial undertakings having foreign private investment.

**11. Repeal.**— The Foreign Private Investment (Promotion and Protection) Ordinance, 1976 (XIV of 1976), is hereby repealed.

**Concluded**

# MINISTER DEFENDS INCREASE IN TAXES

Karachi BUSINESS RECORDER in English 16 Jun 84 pp 1, 8

[Excerpt]

ISLAMABAD, June 15: Federal Minister for Finance Ghulam Ishaq Khan today defended the provisions of the National Budget for 1984-85 relating to increase in the prices of petroleum products, gas, cigarettes, and beverages.

Addressing a largely attended press conference at the auditorium of the Planning Commission this morning, he said, that the decision regarding increase in the prices had been taken after taking into account the fact that it would not have much burden on the consumers.

He made an earnest appeal to the nation to frustrate his efforts to raise revenues by reducing the consumption of cigarettes and foreign brand beverages. "Let this be treated as an appeal to reduce consumption," he added.

For beverages, he said the price increase would take place after the month of Ramazan and an increase of two to four paisa per packet of 10 cigarettes will be effective on the whole range of 26 low cost brands.

Only one luxury brand cigarette will be costlier by 39 paisa per 10 cigarettes packet.

The Finance Minister said the only real increase was in the price of basic energy. This, too, he said, was a price adjustment

which, according to him, was long overdue. This adjustment was also in manageable range.

A six to eight per cent increase in domestic prices of petroleum would hardly maintain the real prices of oil. This, he said, was the minimum necessity to ensure that some pressure for energy conservation was operative in the domestic economy.

In support of his arguments, the Minister said, that apart from these adjustments which must be carried out in the overall national interest, the Budget had placed no additional burden. "There is no increase in any of the administrative prices and no taxes had been raised."

He referred to the burden of subsidies being provided by the Government on various items, and said, Rs. 143 crore were being provided as subsidy on wheat and an amount of Rs. 95 crore went to edible oil as subsidy per annum. Thus the total amount of Rs. 238 crore was spent by the Government on

these two items annually which, he said was a big burden on the Government kitty.

He said for the next year, the import bill of edible oil would stand in the neighbourhood of 644 million US dollars. Not only this much amount was spent to feed the Ghee industry, but the

nation consumed cigarettes worth Rs. 700 crore and take beverages worth Rs. 164 crore in addition to the consumption of 'Pan' of Rs. 10 crore and betelnuts worth Rs. 5 crore, besides tea worth Rs. 265 crore is imported from abroad annually, he added.

Referring to the Islamisation process of banking system in the country, the Minister said the elimination of 'Riba' from the system would be completed next year in three stages, starting from January 1, 1985 and culminating by July 1, 1985 into complete transformation of banking system to full conformity with the dictates of Shariah.

In reply to a question, Ghulam Ishaq Khan said the foreign banks operating in Pakistan would have to go in line with the local banks in respect of Islamisation. "Foreign banks," he said "have to follow the rules and regulations of the country where they operate. They have better expertise and technical know how and can better judge the benefits that accrue from the transactions in accordance with the Islamic principles.

He said the re-lending of foreign loans would continue till some suitable arrangement was made to replace the existing system with the new one.

To another question, the Minister said that there should not be any suspicion in the operations of our banks in handling the deposits under the profit-and-loss sharing system.

The Minister was asked to direct the banks for full disclosure and the balance sheets of PLS accounts. "We must have faith in each other and we are sure banks are handling this job properly."

Ghulam Ishaq Khan further stated that for the complete

Islamisation of banking system in the country, the Government had decided to provide necessary training to the banking staff.

**To a question, the Minister said that cotton crisis was the direct result of speculative tendencies adopted by textile mill owners and there was nothing on the part of the Government that created this crisis.**

On the contrary, the Government had provided all sorts of facilities and reliefs to the textile industry to operate smoothly.

In this respect he referred to the liberal import of viscos yarn and the financial assistance which was demanded by the industrialists.

He disagreed with the argument that corporate tax was on higher side. To meet the developmental expenditure, the Government had to tap many sources in the interest of the country and the other structural changes to which he referred in the press conference related to the announcement of new Industrial Policy which, according to him, brought into full focus the gradual process of the revival of confidence in the private sector for which various measures were taken during the last six years on different occasions. This had now unfolded as a definite charter for the responsibilities as well as privileges of the private sector in the industrial field, he added.

Finalization of a new company law which has been in the making for the last quarter century.

The beginning of a major effort at tariff rationalization as well as institutionalization of continuing effort in this direction.

Major reduction in the reliance on deficit financing and reduction in the rate of monetary expansion below the growth in nominal G.N.P. the battle against inflation has entered a new decisive stage.

## BRIEFS

5-DAY WORK WEEK--Islamabad, June 14--The Federal Cabinet today decided that the Federal Government and its attached departments will work five days a week with Friday and Saturday as close holidays with immediate effect. The Cabinet in its special meeting presided over by President Gen Mohammad Zia-ul-Haq today further decided that during Ramazan the working hours will continue to be observed from 8 a.m. to 1.30 p.m. on all the five working days. Saturday June 16 will be a closed holiday. Office hours to be observed after Ramazan will be announced shortly. The Cabinet also decided that the total working hours will be 40 per week as against 39 which were being observed before Ramazan. There shall be no change in case of educational institutions, hospitals and banks which will continue to work as of now.--APP [Text] [Karachi BUSINESS RECORDER in English 15 Jun 84 p 1]

PROVINCES ADOPT 5-DAY WEEK--In pursuance of the decision taken by the Federal Government regarding two weekly holidays, the Sind and the Punjab Government have with immediate effect decided that the offices of the Sind and the Punjab Government and its attached departments will work five days a week. Friday and Saturday will be closed holidays. The total working hours will be 40 per week against 39 observed before Ramazan. On average basis working day will be of eight hours with half-hour break for prayers and lunch. However, there will be no change in the case of educational institutions, hospitals which will continue to work as usual. During the month of Ramazan, the working hours will continue to be observed from 8 a.m. to 1.30 p.m. on all the five working days. Office hours to be observed after the month of Ramazan will be announced shortly. [Text] [Karachi BUSINESS RECORDER in English 16 Jun 84 p 1]

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